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JUNE 1993

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Nation'sBusiness

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PHOTO: ©JOHN ZICH

To survive in business, *James Baum eliminated departments in his small Morris, Ill., store, adopted a niche approach, and—like countless retailers nationwide—devised various other tactics for outlasting the economic downturn. Cover Story, Page 20.*

PHOTO: ©JOHN BERRY—GAMMA LIAISON

Hurricane Andrew *and other disasters are lifting property and casualty insurance rates. Special Report, Page 44.*

VOL. 81, NO. 6

Editor's Note

PHOTO: ©THOMAS A. PRICE

Florida banker *Steven Price, who makes "character" loans, examines Morris Lewis' crop. Regulation, Page 42.*

DEPARTMENTS

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It's Not Just For Retailers

The cultural, social, and demographic changes that have swept through America over the past three decades have had a profound impact on most types of businesses, but especially on retailing. Those changes have affected not only what customers buy but also how and when they buy. These trends are discussed in detail in this month's cover story, which begins on Page 20. It was written by Associate Editor Meg Whittemore, who covers the retail industry for us. Her report on survival tactics for retailers is an excellent overview of an important subject and contains information that nearly all small-business owners need, regardless of whether they are directly involved in retailing. Any change in the way American enterprise functions is, after all, a universal subject for small businesses.

Most of you were nowhere near South Florida when Hurricane Andrew struck, or in Los Angeles when rioting broke out, or inside New York's World Trade Center when a bomb exploded. But you might be feeling some of the repercussions in the form of higher insurance bills resulting from the massive claims paid by insurers. The article beginning on Page 44 tells you what to expect on business insurance over the months ahead. It was written by Senior Editor John DeMott, a veteran of insurance-industry coverage. You'll find the information helpful in your business planning.

Does your state government assume that the firms it targets will simply continue to pay higher taxes and accept tougher regulation? Next month's cover story will detail the ways in which many businesses responded when faced with such demands. It's about California, but the lessons could apply to any state that fails to recognize the tradeoff between economic health and a sound business climate. It will certainly start you thinking about what you might want to tell your own state's officials concerning what needs to be done—and not done—to encourage job-creating businesses.

Robert T. Gray

Robert T. Gray
Editor

Letters

The Disabilities Act: All You Have To Do Is Ask

Re: "The Disabilities Labyrinth" [April]. Companies are not apt to get in trouble if they *ask* disabled employees, customers, and clients two questions: What accommodations are needed? Are the accommodations provided adequate?

Is the restroom door wide enough? Is the restroom itself big enough? In a cafeteria or restaurant, is all the furniture fixed to the floor? If so, where can someone with mobility problems be seated? How about the water cooler? Is the telephone equipped with a flashing light instead of the usual tone? Are directions, elevator panels, and menus available in braille for the blind? Are ramps (to facilitate wheelchair access) booby traps for the rest of your employees or clients?

Ask the disabled what they need, and ask many different people with many different disabilities. We are eager to help.

Christine Rawlings
Quint Cities Handicapped Awareness Group
Davenport, Iowa

Managed Competition—Or Managed Compulsion?

Re: "Health Reform Takes Shape" [April]. Managed competition must be viewed in light of its premises. One premise is that people have an inalienable right to inexpensive health care. Another premise is that someone must deliver this care regardless of the cost and reward for doing so. Unfortunately, those two premises contradict each other.

It is not possible to unleash an unlimited demand and expect it to be satisfied at lower prices. Managed competition is nothing more than doctors being bullied by large gangs of patients armed with laws. A more accurate name for it would be "managed compulsion."

Mark Pollina
Torrance, Calif.

How To Keep 'Em Coming Back

The article "What Do Customers Think Of Your Firm?" [April] makes several valid points about customer service and retention. Maintaining a good relationship with customers can be a company's best advertising. You said nothing, however, about customer-satisfaction evaluations, specifically mystery shopping.

Feedback Plus sends field representatives into stores, restaurants, banks, hotels, health clubs, and other facilities to pose as customers and evaluate how they are treated.

The mystery-shopping industry is growing because companies realize that advertising may bring in customers, but superior customer service will keep them coming back.

Vickie L. Henry
President
Feedback Plus, Inc.
Dallas

Judge A Book By Its Cover—And Get Sued By The Author?

Re: "Ways To Curtail Employee Theft" [April]. If an applicant described as "a little coarse" should be suspected of being a potential thief, should a real smoothie be assumed to be trustworthy?

Hiring decisions based on such "impressions" are sure to lead the employer to court under charges of illegal discrimination.

James P. Schultz
HR Management
Seattle

[Editor's Note: The article noted that an applicant described by a personnel-screening service as "a little coarse" had been hired without a full background check. It did not suggest that the applicant should have been rejected solely on the basis of that characterization.]

Mississippi's Voluminous Enterprise Zone

"Recasting Enterprise Zones" [February] stated that Mississippi has discontinued its enterprise-zone program. Yes, we discontinued the initial enterprise-zone program, which six other states modeled their programs after, but only in favor of extending enterprise-zone benefits statewide.

Those benefits include a 25 percent state income tax credit given to any employer providing basic skills training. An additional 25 percent credit is given to any employer providing child care.

In addition, eligible employers in Mis-

sissippi who create full-time jobs are eligible for five-year tax credits ranging from $500 to $2,000 per job annually.

Collectively, new and expanded industries brought a total capital investment of $1.5 billion to our state in 1992, and 22,509 jobs. Nearly all of this growth was afforded enterprise-zone incentives.

James B. Heidel
Executive Director
Department of Economic and Community Development
State of Mississippi
Jackson, Miss.

Different Perspectives On North American Trade

The article "A Surge In Trade With Latin America" [February] requires some clarification.

The North American Free Trade Agreement (NAFTA) will benefit many U.S. businesses, but it will also do immeasurable harm to other businesses. If a product is manufactured in the U.S. and sold to Mexico as a consumer product, everyone benefits.

Leon Stern's paper-products company, Stephen Wolfe's cellular-phone interfaces, and Symbol Technologies' barcoding scanners and hand-held computers are consumer products, which should benefit.

However, San Diego-based Cal-State Lumber Sales does nothing but export U.S. jobs to Mexico. In fact, the Acevedos' company is actually based in Tijuana, Mexico. The San Diego operation is merely a way of purchasing U.S. lumber and shipping it to Mexico, where the Acevedos own a rather large wood millwork plant through which all the lumber exported from the U.S. is processed into moulding and millwork.

This lumber, purchased at the same price U.S. millwork plants make their purchases, is returned in finished form to the U.S. at prices up to 25 percent below the average prices of U.S. producers. How is this done? A labor rate under $10 a day, no medical benefits, no fringe-benefits package, no mandated government benefits, no environmental or workplace-safety regulations, etc., etc.

Yes, Cal-State Lumber Sales is benefiting. However, it's at the expense of U.S.-based moulding and millwork plants, their employees, and communities.

Bernard J. Tomasko
Executive Vice President
Wood Moulding & Millwork Producers Association
Portland, Ore.

Cal-State Lumber Replies

Cal-State is a California corporation. Our 120 employees are paid much more than $10 a day, and they enjoy a generous insurance plan as well as many other benefits.

A host of suppliers, insurance agents, customs brokers, lawyers, accountants, mechanics, and delivery people are employed in the U.S. because of our sales to Mexico.

As to selling price: We are in business to succeed, and you cannot succeed by

selling at 25 percent below the average price.

SEDUSOL, the Mexican equivalent of the Environmental Protection Agency, is dead serious when it comes to compliance. One of our customers in Mexico has spent over $2 million to comply with SEDUSOL's requirements. That money was spent primarily for U.S.-made equipment, creating jobs in the U.S.

It seems to us that the Wood Moulding & Millwork Producers Association should be looking for markets in Mexico for its members rather than trying to close doors.

Mary Alice Acevedo
Director of International Relations
Cal-State Lumber Sales Inc.
San Ysidro, Calif.

A Futile Request

I am enclosing a copy of my fax transmission to the Government Printing Office, requesting publications mentioned in the article on trade with Latin America. You will note that the publications I requested were already out of print—even though they were published in 1992.

Nation's Business is a first-class publication that generates many ideas and provides valuable information. I wish the U.S. government could do the same.

E.H. Arostegui
Metairie, La.

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000, and include your phone number. You may fax your letter to (202) 887-3437.*

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Entrepreneur's Notebook

By John Wiley

Turning Failure Into An Asset

In April 1985, I became a statistic. I was another failed entrepreneur.

The bank had locked the doors of my company, Microbits Peripheral Products Inc. I had lent all of my money to the company, and it was gone. So too was my car. My partner lost his car and airplane. It was, in short, an entrepreneur's nightmare.

By late June 1985, I was a statistic again, but this time as a start-up—in the same industry where I just had failed.

People successful in their first venture often feel as if they can walk on water. Then, usually, they sink beneath the waves. But I firmly believe that a business failure can be a big plus—as long as you learn from your mistakes.

That's how it worked in my case.

Alan Ackerman and I started Microbits in Albany, Ore., in 1982. We met in high school, went to Oregon State University, and decided to drop out to make hardware for the then-popular Atari personal computer.

Like most start-up entrepreneurs, we did everything from assembly to shipping; many nights we never left the office. Within a year and a half, the company was a success, on its way to $3 million in sales and 55 employees in 1984.

Then, in early 1985, the Atari market collapsed, taking many companies—including ours—with it.

A company with all the right systems in place—with a good management-information pipeline—could have weathered the storm. At Microbits, however, we didn't have any idea where we were, much less what we had to do. Our business had grown faster than we could manage it.

We hired a turnaround expert and started moving in the right direction, but it was too late. The bank got nervous when we fell behind on our payments, and it called our loan. The bank tried unsuccessfully to sell Microbits' assets itself; then it decided to package the assets for a sealed-bid auction and asked our help in soliciting bids.

In exchange, we would get a commission on the sale, and the bank would rip up our personal guarantees of its loan to Microbits—the guarantees that had already cost us our cars and my partner's airplane.

PHOTO: ©STEVEN BLOCH—BLACK STAR

John Wiley: *Determined not to repeat earlier mistakes in making devices for computers.*

While we hunted for bidders, my partner Alan and I also put together what turned out to be the winning bid. We knew the business could be a money maker. Buying back the assets—for 10 cents on the dollar, as it turned out—and getting rid of the debt would give us a fresh start.

But we had to find money to buy the assets. We rounded up 10 local investors who put us back in business. Their faith in us was quickly rewarded: They got all their money back, plus a 50 percent return, only six months after Supra Corp., our new venture, opened for business in the garage and bedroom of my Albany home.

It wasn't easy getting started again, though. Many creditors felt burned, and rightfully so. We paid cash for a lot of supplies; some Microbits suppliers wouldn't sell to Supra for years.

But we finished the first year—having moved out of my home—with about $1.2 million in sales. The company could have done even more business, but Alan and I were determined to be more conservative this time, and not grow too fast.

We also decided to concentrate on what we did best, instead of trying to do everything. We hired managers to handle the jobs that did not draw on our strengths.

Determined not to repeat our mistakes, we emphasized structured management and financial reporting procedures. We also committed ourselves to developing new products for different brands of computers, so our business would not be too dependent on the fortunes of any one company.

Last year, Supra Corp. had about 110 employees, a new 25,000-square-foot building, and $35 million in sales—much of it from modems and communications devices that can be adapted for all types of computers. Best of all, the company has financial footing solid enough to accommodate growth.

Maybe Alan and I would have given up if we had been older, or if we had finished college and had a reasonable shot at getting a good job somewhere else. But giving up would have been a mistake. We had a good idea and a solid product—execution was the problem, and we solved it.

I'm not proud that I ran a company that failed; I'm proud that I now run one that is successful. Failure always slows you down. But if you have determination and a desire to learn, it won't stop you. NB

John Wiley is president of Supra Corp., an Albany, Ore.-based maker of computer telecommunications equipment. He prepared this account with Nation's Business *Contributing Editor Charles A. Jaffe.*

Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, *1615 H Street N.W., Washington, D.C. 20062-2000.*

What I Learned

Our company failed, but we didn't. We learned. The label "failure" would have applied to us only if we had called it quits and had lost our entrepreneurial drive.

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Dateline: Washington

Business news in brief from the nation's capital.

FRANCHISING

Congress Considers Franchisor Restraints

Congressional debate continues over whether federal regulation of franchisor/franchisee relationships should be expanded. Early this year, House Small Business Committee Chairman John J. LaFalce, D-N.Y., introduced legislation and held a hearing to address what he perceives as the "growing problem of fraudulent and deceptive business practices" in the sale and operation of franchises.

The package of bills includes two measures introduced in the last Congress—the Franchise Disclosure and Consumer Protection Act and the Federal Fair Franchise Practices Act. The former bill calls for strengthening federal laws that govern disclosure and anti-fraud enforcement, and it would add a right of private action. The latter bill would establish minimum standards of conduct in franchisor/franchisee relationships and also provide a right of action.

The third bill in the package, a new measure titled the Federal Franchise Data and Public Information Act, would require the federal government to begin collecting statistics on the growth and business performance of franchises. Critics of franchising have accused franchisors of often luring investors into business deals with misleading and inaccurate expectations of success.

The International Franchise Association (IFA), a trade group for franchisors, admits that there have been some "discontented franchisees and frustrated franchisors," but the organization does not support additional federal or state legislation. IFA Chairman Stephen Lynn says self-regulation is the most sensible way to improve industry practices. The IFA recently adopted a strengthened voluntary code of ethics.

LaFalce says he is not convinced that self-regulation within the franchise industry will work, and he plans to hold additional hearings this year on issues covered under his legislative package.

LaFalce's disclosure bill is before the House Energy and Commerce and Judiciary committees; the relationship bill is pending in the Judiciary Committee; and the information bill will be considered by the Energy and Commerce and Post Office and Civil Service committees.

—*Meg Whittemore*

LITIGATION

PHOTO: T. MICHAEL KEZA

Attorney General Janet Reno *answers questions from reporters at the U.S. Chamber following her address on civil-justice reform.*

Attorney General To Push Civil-Justice Reform

Civil-justice reform will be a priority of the U.S. Justice Department under the Clinton administration, Attorney General Janet Reno told corporate counsels and others concerned about reform at a recent conference on the subject at the U.S. Chamber of Commerce, in Washington.

Reno said she plans to set up an office at the Justice Department to consider ways to improve the legal system. "I want to approach [civil-justice reform] in a nonpartisan, careful, thoughtful way through the creation in the Department of Justice of something akin to the old Office of Justice Improvement—an office where we can focus on the issues of civil-justice reform without buzz words, without labels, and without political debate."

She said she wants to look at what is best for the system and to consider issues such as alternative dispute resolution, case management, punitive damages, product-liability reform, court prefiling requirements, and early dispute-settlement provisions.

Reno said she didn't have answers to the many civil-justice issues yet, "but I have a commitment to this area as one of the most important that the Department of Justice can undertake."

In addition, Reno said "all lawyers" must address the issue of "how complicated we have made our laws, what we have done to ensnarl the American people in bureaucratic rules and regulations that make access to services or compliance with the law sometimes difficult, if not impossible." ■

REGULATION

FCC Suspends Rule On Phones For The Hearing-Impaired

The Federal Communications Commission (FCC) suspended until further notice enforcement of a regulation that requires firms with 20 or more employees to make all telephones hearing-aid compatible.

The FCC rule, adopted in June 1992 to take effect May 1, 1993, is an interpretation of legislation requiring all "essential" telephones to be hearing-aid compatible. Hearing-aid compatible phones eliminate electronic feedback that can interfere with hearing aids.

The commission announced the delay after *Nation's Business* had gone to press with last month's article noting the May 1 deadline. The FCC responded to public comments on the potential costs of compliance—about $40 per phone—and the feasibility of meeting the deadline.

—*David Warner*

Managing Your Small Business

Hiring summertime employees; paying for the sound of music; safeguarding your innovations.

By Bradford McKee

WORKPLACE

A Learning Experience: Teenagers At Work

Summer's almost here, teenagers are looking for jobs, and you might find younger people to be an excellent source of enthusiastic and less-expensive labor—but training makes all the difference.

"It's very cost-effective to hire adolescents for unskilled jobs," says Jeylan Mortimer, a University of Minnesota sociologist studying teenagers on the job. "Wages are fairly low for very high-quality work. And they're not looking for security and benefits."

However, turnover is high among teenage workers, Mortimer says. "They don't have to stay if they're not happy."

Michael Grimsley, owner of The Wood Gallery Inc., in Annandale, Va., has found that the best way to keep teenage workers happy and productive is to be specific and clear in training them, keep them busy, and offer incentives. Grimsley just recently opened his store in Annandale but has hired lots of teens over the years in his family's furniture stores.

PHOTO: T. MICHAEL KEZA

Furniture-store owner *Michael Grimsley, left—with part-time worker Everett Morton—keeps teenage employees productive.*

As Grimsley begins recruiting and training teens for his new store, he's setting the stakes for learning the job by telling them they'll have to teach someone else the tasks they take on. "That is a great way to learn," he says.

Grimsley also looks out for the basics of good grooming and manners, he says, allowing three warnings for infractions before a worker's job is in jeopardy.

Teenagers in the workplace are "trying to gain experience, trying to gain training," says Mortimer, and may be getting used to having someone else depend on them for the first time. But don't underestimate your teenage employees, she says, because many of them have lots of informal work experience, doing such things as shoveling snow and cutting grass. (For more on hiring summer workers, see Page 40.) ■

LAW

If You Want The Tunes, You Must Pay The Piper

If you play other people's music anywhere in your company, you almost certainly need to obtain permission and pay a license fee, because the tunes are probably protected by U.S. copyright laws.

The requirement applies for all the music you may have in your workplace—tapes, records, compact discs, piped-in radio, live bands, aerobics or dance classes, even the hold button of your telephone. The music belongs to the creator, and you can't use it for free in your business.

The two big music-licensing companies in the United States, BMI and ASCAP, are reminding businesses of all sizes that by law they *must* pay the licensing fee or risk being sued. Damage awards can range from $500 to $100,000 per protected musical work.

If you play multiple musical works, you probably also need licenses from both BMI and ASCAP because they are separate organizations and their licenses don't cover the work of each other's artists.

The fees for licenses, says BMI, are flexibly based on company size: Big firms pay more, small ones pay less. There's also a paperwork requirement, as if you needed *that*.

For more information, call BMI at 1-800-669-4264; and ASCAP at (212) 595-3050. ■

EMPLOYEE RELATIONS

Exit Interviews Help, But Only So Much

Exit interviews with departing employees offer honest clues to what's going on in your company. But at best they're only part of a whole set of ways to listen to your staff, according to human-resource specialists at Catalyst, a New York City workplace research and consulting firm.

A helpful companion to the exit interview is the exit survey, completed by the former employee, confidentially if desired, a few weeks after leaving. The exit survey may be an especially good time to include sensitive questions—about sexual harassment, gender bias, or work and family matters—that employees may avoid in person.

The exit interview process "lets you verify what your gut's telling you about why people are leaving," says Mari White, director of employee relations for Barnett Banks Inc., in Jacksonville, Fla.

Such talks and questionnaires, however, should be supplements to ongoing "climate surveys" taken of current employees to probe satisfaction levels, according to Catalyst. To make use of the data, the company suggests you:

- Track turnover by gender and department. This can correct misperceptions and identify potential trouble spots that may need a closer look.
- Confront high turnover directly and openly by sharing information gained in exit interviews and by eliciting employee views.
- Use "alumni interviews" to survey employees who have been gone a year or longer. They will be more objective by then. ■

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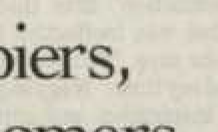

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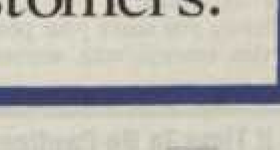

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INNOVATION

Keep Your Guard Up To Protect Your Prototype

How can you protect yourself from idea scalpers?

Giselle Nagy, a 25-year-old preschool teacher in Reseda, Calif., who turned an idea into a product that was shipped to stores nationwide in March, offers this advice:

■ When you show your invention to prospective manufacturers, have them sign a confidentiality agreement. In the absence of a patent, the agreement can protect your claim to the invention.

■ *Never* sign a waiver of your rights to the product concept.

■ Beware of companies that claim they'll bring your product to market for you.

Nagy invented the Helpin' Hand—a beverage holder for use in a car—and spent $10,000 bringing it to market. But $4,000 of that amount went to an "invention-promotion" firm that accepted her cash but was ineffective in pushing her idea, she says. "That invention firm really wasted my time." Nagy says she found far more inspiration and support at inventors' trade fairs.

Before you share your product idea or service concept with anyone, shore up

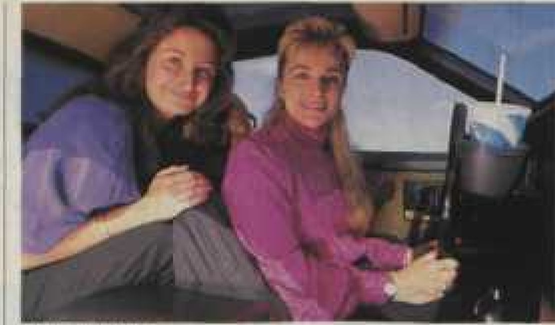

PHOTO: ©RICHARD DERK

Giselle Nagy, *right, and business partner Bari Slovis; protecting the Helpin' Hand drink caddy.*

your proprietorship with a paper trail, says David Pressman, author of *Patent It Yourself* (Nolo Press, Berkeley, Calif., $34.95). This could later serve as evidence in court that the idea was yours.

When you conceive your idea, put it in writing, then sign and date the written record and ask two persons to sign it as witnesses; their signatures don't have to be notarized.

Do the same thing again when you build and test the invention—make a record and have two persons sign it as witnesses. "It enables you to prove you invented it and when," Pressman says. (In the unlikely event that someone else would produce a similar record with an earlier date, your claim could be harder to prove.)

Before you show your idea to others, have them agree to sign a written acknowledgement that they are seeing it, says Pressman. "Then it would be very hard for them to steal the idea from you."

As Nagy mentioned, a manufacturer may ask an inventor to sign a waiver forfeiting all rights to the product except patent rights if the inventor already has one. A patent gives its holder exclusive rights to make, use, or sell the invention that is claimed in the patent deed for 17 years, provided certain fees are paid.

If you don't have a patent, Pressman says, "the company may use your idea, and you may not get royalties."

Nagy learned to be on guard when trying to sell her product idea, and it's paying off. She already is receiving about $1,000 every month from the manufacturer for the rights to her Helpin' Hand idea, "just a minimal amount," she says, "until I start getting profit from the sales." ■

CREDIT AND COLLECTIONS

Is It Time To Be Cautious With Credit—Or Generous?

In the aftermath of the recent recession, one of the bigger credit-management questions is: How do you balance the risk of granting credit with the need to retain customers who could not buy without credit?

"There are no easy answers," says Scott Anderson, a credit-management consultant in Concord, Mass. Nonetheless, Anderson suggests these strategies:

Brace for bad debts. Cash flow is tighter than ever since the recent downturn, Anderson says, and every account in the receivables column should be treated as a potentially bad penny.

Ease credit approvals, but tighten terms. Don't dismiss companies outright that pay but pay slowly. Give them a shot, says Anderson, because you could probably use the sale, but "insist that they pay within terms."

Such clients might include firms that have filed for Chapter 11 bankruptcy protection or went out of business during the recession and are starting over. "Business failure does not mean dishonesty," Anderson says. And although you don't want to be duped, your helping hand may earn that customer's loyalty.

Be creative. Varied credit terms, within reason, can improve sales, Anderson says. Offer discounts for faster payments, or for customers secured through a letter of credit, promissory note, or personal guarantee.

Watch for "bustouts." Some new companies run up huge debts, only to file for bankruptcy. Companies recently taken over by new owners are perfect vehicles for such "bustouts," says Anderson. There's no guaranteed protection against this wily type of debtor short of saying no. Don't approve credit if anything appears wrong. ■

NB TIPS

Government Contracts

A book just released in April, *Selling to Uncle Sam*, takes managers through each step of winning a government contract, from understanding project specifications to setting a price, bidding, preparing a proposal, and fulfilling the contract. The text is illustrated with sample government forms and includes a glossary and several pages of sources. The 224-page book is available at bookstores in hard cover for $32.95 or soft cover for $16.95, or by calling the publisher at 1-800-2-MCGRAW.

A Guidebook From OSHA

An updated version of the Occupational Safety and Health Administration's (OSHA) workplace health and safety guidebook for small businesses is now available.

The *OSHA Handbook for Small Businesses* includes a new self-inspection checklist to help identify workplace hazards, and it also has an in-depth employee training section on OSHA's recently implemented blood-borne-pathogen standard. The 57-page handbook also lists free OSHA consultation and other problem-solving services available to employers.

The $4 publication can be obtained by writing the Superintendent of Documents, Government Printing Office, Washington, D.C. 20402, or by calling (202) 783-3238.

Fax orders should be sent to (202) 512-2250. The handbook's order number is 029-016-001-441.

For Better Meetings

For help in a humorous vein in making meetings shorter and more productive, Video Arts offers a remake of its 1976 John Cleese video "Meetings, Bloody Meetings."

The 30-minute video, reshot to reflect changes in clothing styles and business environments, covers the five principal reasons that meetings may fail.

The cost to preview the film is $50; rental for up to five days is $240; and the purchase price is $870. For information, call 1-800-553-0091. NB

Making It

Growing businesses share their experiences in creating and marketing new products and services.

Hawaii Calling

By Michael Barrier

If there's a secret to small-business success, it's using to the fullest whatever resources are available—and, beyond that, seeing a resource where other people might not see one at all.

An example: time zones.

Hawaii, in the middle of the Pacific Ocean, lags the East Coast by five hours in the winter and six in the summer (when the mainland observes Daylight Saving Time). If a Honolulu firm wants to start its business day in sync with New York, it has to open its doors in the wee hours of the morning. But it reaps one great benefit: low rates for its phone calls to the mainland.

Four years ago, Richard Moody, the Hawaii manager for one of the major long-distance carriers, recognized in those low rates a foothold for a new business. He struck out on his own in May 1989, by starting Aloha Conferencing Services.

Aloha, which has since grown from two to 36 employees, is one of dozens of small firms—the spawn of telephone deregulation—that offer conference-call services of the kind that once were the preserve of AT&T. They provide the bridging points for calls that may bring together dozens of people, in as many places; Moody cites one weekly call that involves 26 locations, 12 of them outside the U.S.

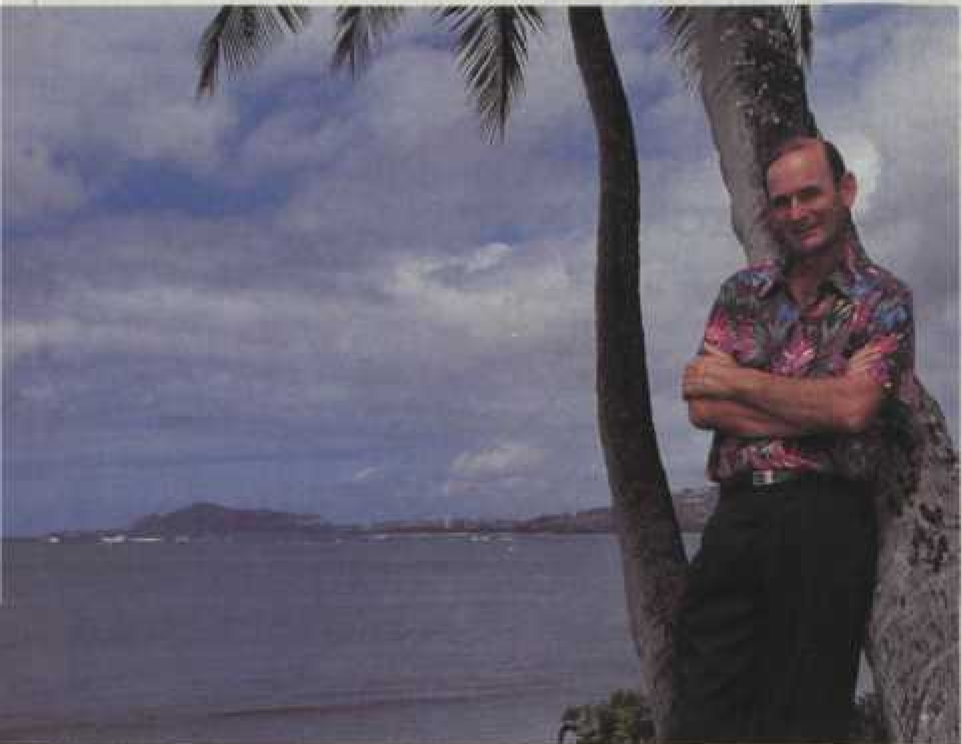

PHOTO: ALICE CARRE

Richard Moody's *Aloha Conferencing is just down the road from Haunama Bay.*

A native of Tennessee, Moody, 50, has no technical background. He worked as an accountant in Washington, D.C., before moving to California and getting into the long-distance business as a salesman.

His initial financing came through a $200,000 loan from a state agency—a better deal for him than the private capital available, he says, because he didn't have to give up any equity. Moody had paid off the loan by the end of his third year in business.

Now debt-free, Aloha sells about 650,000 minutes a month of teleconferencing time, at 25 cents or 49 cents per minute, per location, depending on the service provided. Moody expects his 1993 revenues to total $3.5 million, up about 40 percent from last year.

When he started, with his conferencing equipment located in Honolulu, "that night rate was a tremendous advantage in keeping our costs low," Moody says. But now, ironically, Aloha's equipment is on the mainland, in New York and Los Angeles. "We tie to that equipment via dedicated data lines and voice lines," Moody says, "and operate it from here. Our calls actually originate from New York or L.A; only the operators are in Honolulu." That way, Moody says, "we're guaranteed fiber for all of our connections—and we get to stay in Hawaii."

Until this year, only one fiber-optic cable connected Hawaii to the mainland, and that cable, Moody says, was reserved mostly for international calls. When the cable filled up, Aloha's calls had to be sent by satellite, "and satellite connections are not always the best," he says. "With fiber, it doesn't matter how far away you are."

Aloha still enjoys a price advantage because of its Honolulu location—it does all of its telemarketing when night rates still apply. As for the conference calls themselves, Moody says, "we have evolved to the point that we now qualify for the highest discount rate that the long-distance carriers provide"—and that rate is the same, day or night, and regardless of where in the U.S. the calls originate.

Moody says his biggest competitive weapon is no longer price. All the big long-distance carriers now offer conferencing services, and they "put a lot of price pressure on us," he says. "We've lost some of our customers. But within a very short time, everyone we've lost has come back." He keeps—and wins back—customers "because we work with them," Moody says. "If you do a large call every Monday, the same operator will handle that call every time."

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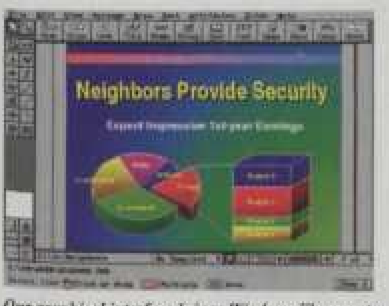

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because each Aloha operator may be handling 10 conference calls at once. But the operators have a powerful incentive to provide perfect service: Not only does a highly automated system keep track of their mistakes, but an error-free performance brings a large bonus.

Before the bonus program, Moody says, "we were having five to 10 mistakes every day, per operator. Now we may have five mistakes a month, for all operators—and we're five times bigger."

Moody has no illusions about the hard road that lies ahead for his small company. "I must grow the volume to survive," he says. As he works at that, he thinks that his Honolulu location will give him an advantage that goes well beyond any savings from night rates.

"A vast percentage of our customers like doing business with us because they know they're talking to Hawaii," Moody says. "It brightens their spirits." When his telemarketers call firms on the mainland seeking new business, they may have to talk to several people before hitting pay dirt, but "there is always somebody in an organization who has a sensitive ear to a call from Hawaii," he says. "And we'll find them." ■

Cactus Needles To Compact Discs

By Kristi Vaughan

Sanford Berlin received an early introduction to the sophisticated world of audio equipment. As a child in the early '30s—he is now 66—he kept his grandfather's record player in top condition. "My grandfather was a high-tech person," Berlin says. "He used cactus needles, said that they had a better quality than metal. It was my job when the needles got dull to resharpen them."

Cactus needles have long since given way to compact-disc players and digital components, but Berlin's inherited passion for high-quality sound hasn't changed.

And now Madrigal Audio Laboratories, the high-end audio-equipment manufacturer that he started in Middletown, Conn., eight years ago, is successfully challenging Japanese and European competitors in their home markets.

"For us to be successful," says Berlin, Madrigal's chief executive officer, "we have to design a product that is better than the best local product."

Despite price tags that rival those of luxury cars (a state-of-the-art system can easily run $50,000 in the U.S., double that in Japan), Madrigal is selling thousands of compact-disc players, digital processors, amplifiers, and preamplifiers in 46 countries. Only 30 percent of the company's sales comes from the United States.

"We reasoned that there wasn't any country in the world that could support a very high-end company all by itself," Berlin says. "So we wrote a plan to do business all over the world."

Madrigal first went after distributorships in Japan, Germany, Canada, and other high-income countries. The company has recently expanded into South America and Egypt; the United Arab Emirates are next in line.

Although their high cost makes it unlikely the average consumer will ever own any Madrigal products, that's just fine with Berlin and his key officers. "A lot of companies have lost their focus putting out mediocre things," says Mark Glazier, the company's president. "Enlightened consumers want there to be a focus and a dedication that is clear."

Berlin actually retired from the audio industry 17 years ago, when he stepped down as president of Harman Industries. He spent a couple of years as a visiting fellow at Yale University and was generally at loose ends when the mayor of New Haven, Conn., got in touch with him about an ailing audio firm, Mark Levinson Audio Systems, that wanted to locate in the city.

PHOTO: ©MELANIE EVE BAROCAS

Sandy Berlin *came out of retirement to build an audio firm.*

Berlin, along with friends, invested about $1 million in the company, thereby acquiring 60 percent ownership but assuming no responsibility for the firm's past debts.

Within a few years, though, the Levinson company went bankrupt anyway, and Berlin and his friends lost their investment. That was the end of it—or so Berlin thought.

He was building a house on the seventh fairway of a golf course in 1985 when he learned that the Levinson company's assets were to be sold at auction. He put a couple of blank checks in his pocket ("in case there was anything I wanted to buy," he says) and went to the auction. By day's end he owned everything—the equipment, blueprints, and the right to use the Mark Levinson trademark. All for $160,000.

In Madrigal's first year, revenues were $1.3 million; by last year, they had grown to $14 million.

Berlin hopes that within the next five years—depending on how fast the global economy improves—revenues will grow to $30 million.

Last year, though, cash-flow problems temporarily threatened Madrigal's ability to pay its bills. Berlin invited his top 20 suppliers to a catered lunch and asked their indulgence. When one supplier wanted to know why he should further extend credit, Berlin replied: "Every time I take an order, you get a hunk of business. I'm not a local manufacturer, I'm your sales manager."

At monthly meetings, Berlin opens the books and his management decisions to employee scrutiny and criticism. Last July, at the close of the 1991-92 fiscal year, he stood proudly before Madrigal's 150 employees to say: "We've just had the first solidly profitable year of this young company, in the worst of times."

The company is still growing, although the worldwide recession is taking its toll. Sales in Japan are down, for instance—but market share there and elsewhere is up, and Berlin thinks that bodes well for the future. "In a shrinking market," he says, "the best product continues to sell, and the others disappear." NB

Kristi Vaughan is a free-lance writer in Ridgefield, Conn.

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COVER STORY

Survival Tactics For Retailers

By Meg Whittemore

PHOTO: ©JOHN ZICH

By making changes, *James Baum saved his small department store. His two Hallmark stores have given him promotion experience—and company for the photo.*

Although it was a business decision grounded in reality, it still had emotional overtones. James Baum knew that eliminating the fabrics section of his small department store in Morris, Ill., was crucial to his firm's survival. But it also meant he would be cutting a tie with his company's roots. The 114-year-old store had been in his family for three generations, he recounts, and "fabric was how our business started."

Baum nonetheless replaced the fabric section with a women's sportswear department, and its sales eventually doubled those of the best year of fabric sales.

While that particular change had historical significance for his company, it was actually only one of many that Baum has made over several years in the face of economic and demographic trends that have stiffened competition for virtually all retailers. For that step and others that he took to assure his company's survival, Baum was recognized by the National Retail Federation as 1993 Small Store Retailer of the Year.

Baum is representative of the legions of small firms coping with the challenges of accelerating change. But companies of all sizes and in all sectors of retailing are facing what one industry leader calls "tremendous competitive pressures." They affect not only independent stores like Baum's but also giant chains, traditional discounters, new discounting operations such as price clubs, and specialty stores—in short, all stores.

Those influences that face all retailers, says Robert Verdisco, president of the International Mass Retailing Association, include:

■ The tremendous competitive pressures that arise when the size of the

Personal service, specialized merchandise, and product-value guarantees are just a few approaches that retailers must adopt to outlast a difficult economy.

market is essentially fixed; under that circumstance, a retailer can increase business only by taking it from someone else.

■ The inability to raise prices to achieve higher profits; cost-conscious customers won't stand for price hikes.

■ The need to try to increase sales by offering better service and by increasing the efficiency of operations at every step—from suppliers' plants to the selling floor.

In addition to those aspects of contemporary retailing, Verdisco says, store owners must also contend with fast-rising costs for benefits, particularly for health care; with the expansion of government regulation, including the recently implemented Americans with Disabilities Act; and with the threat of higher federal taxes, including a value-added tax.

Verdisco, whose organization includes smaller chains and many small-business suppliers as well as the major chains, sees the competitive drive in retailing shifting to services, which requires a smarter and better-trained work force, and to economies achieved largely through technology-based increases in efficiency.

Growth Of Inflation-Adjusted Retail Sales

	Percentage Change From Previous Year
1982	- 0.87%
1983	6.72
1984	12.34
1985	4.00
1986	5.35
1987	4.48
1988	5.30
1989	6.01
1990	0.83
1991	- 3.75
1992	6.13 *
1993	4.11 **
1994	5.27 **

* Estimated With Incomplete Data
** Projected

SOURCES: U.S. DEPARTMENT OF COMMERCE; MANAGEMENT HORIZONS DIVISION OF PRICE WATERHOUSE

How are retailers faring in the face of such challenges? There are warning signals. Failures among retailers, most of them small firms, reached an all-time high in 1992, when 19,005 businesses filed for bankruptcy, according to Dun & Bradstreet.

Dan Paul, president of Retail Merchandising Service Automation, Inc., a retailing consulting firm in Riverside, Calif., forecasts that bankruptcies in 1993 will reach last year's level. "The small retailers who are on the edge now are going to go over this year," he says.

That outlook has overtaken the optimism that had grown out of consumer confidence and strong Christmas sales late last year. Some analysts attributed those developments to expectations of recovery as a result of the change in administrations. But much of that optimism has evaporated. Jack Schultz, executive director of the National Retail Federation (NRF), a trade organization in New York City, says, "We are terribly worried that the consumer confidence has changed now that the honeymoon appears to be over in Washington, D.C."

The growth rate of all retail sales, adjusted for inflation, will increase later this year but decline in 1994, according to a study conducted by Management Horizons, a Columbus, Ohio, research firm that is a division of Price Waterhouse. For next year overall, however, retail sales are expected to post a gain over the level attained this year. (See the chart above.)

But smaller retailers might not share even in the short-term improvement expected later this year. Says Carl Steidtmann, chief economist for Management Horizons: "The prognosis for that segment remains poor."

A similar warning was sounded by Lester C. Thurow, dean of the Sloan School of Management, at the Massachusetts Institute of Technology. Addressing NRF's annual convention earlier this year, he cited U.S. Labor Department statistics indicating a 19 percent decline in real wages from 1973 to 1992 for the average American worker. "If we live in a world where your customers have falling real incomes, some of you will be successful, but many of you will be failures," Thurow told the retailers.

How are the smaller independent retailers reacting to such predictions?

"I knew that we had to redefine ourselves as a store if we wanted to compete," says James Baum. For his operation, the redefining consisted of eliminating lagging departments, adopting a niche approach that caters to women seeking larger dress sizes, and offering frequent-buyer discounts to customers over 50.

"That's a [customer] relationship builder and also a good marketing tool," Baum says of the discounts. He points out that the two days a year on which he gives senior citizens a 20 percent discount "are the biggest sales-volume days of the year for us."

At the same time, Baum says, he has kept expenses down through steps that include greater use of part-time help, which sharply lowers his costs for benefits.

But he refuses to cut back on capital improvements. "Customers notice if your store looks shabby," he says.

Baum assembles ready-to-wear clothing into collections of items with high customer appeal and communicates these offerings to customers via a customized direct-mail campaign when a new line of merchandise is ready.

It is through such strategies of personalized service, specialized merchandise, and product-value guarantees that many retailers are able to survive. Those who don't see the need for special efforts are in trouble.

Barbara Rackes is one retailer who has made those special efforts to stay in busi-

ness. She operates two upscale women's-apparel stores, in Columbia, S.C., and Charlotte, N.C. Her customers typically are middle- and high-income women who don't want to spend time in a store where it is difficult to find knowledgeable, courteous, and helpful salespeople.

Rackes offers personalized service for customers who need assistance in putting together a complete ensemble. For example, she searches through racks of clothes for a blouse to go with the suit and then finds a pin to go with the outfit, rather than expecting the customer to do so. Her highly trained employees—called sales counselors—help women create complete outfits and develop a wardrobe.

Rackes' stores enjoyed sales growth of 15 to 20 percent annually for years, but the recession of the early 1990s took a toll. "Consumers stopped spending money, and sales came to a halt," she says, adding that in retailing, "it often takes six months for consumers to adjust to a cycle, and then they gradually ease back into spending."

PHOTO: STERRY PARKE

Listening to her customers *and reorganizing her business helped Barbara Rackes recover from the first unprofitable year ever for her two upscale women's-apparel stores.*

When the business lost money for the first time in 18 years, it "drew us up short," says Rackes. "We put every practice, every policy, every philosophy, and every job on the table to determine what produced a profit, had a purpose, or maintained our company standards." That process of turning the business inside out was painful because it forced Rackes to make internal changes in her company.

The first cut came in the company's advertising costs. Rackes had been producing and sending every customer a four-color direct-mail brochure five times a year. "We considered the brochures essential to reaching our customer," she says, but she heard a different message when she explored their usefulness by conducting focus groups made up of her customers. "We found out that people thought they were real pretty but put them in the trash," she says. So she discontinued the brochures and figures she's saving $50,000 a year.

Another cost-cutting move was the elimination of 19 of the company's 91 jobs. The work-force reduction was achieved by combining some jobs and eliminating others. "We flattened the organization and set up a team management system," says Rackes. The total savings from job reorganization the first year was $270,000.

Rackes says she found herself having to deal with changing some personal attitudes, too: "I typically would say I'm right and I know I'm right, instead of saying let's talk and see where we are wrong." Her approach now, she says, is to describe an objective and seek advice on how to get

Understanding Your Customer

If you are a retailer, you don't need to be told that your customer is changing. You probably have already felt the effects at the cash register. Today's customer is pressed for time, has more choices of merchandise than ever, and looks for value and low prices.

How can small-store retailers compete for customer loyalty? The numerous surveys on how to reach and retain customers contain an underlying message: "Know your customer."

One way to get to know your customer is to conduct your own survey, asking customers either directly or in writing what they like and don't like about your store.

Every year, Barbara Rackes, owner of Rackes, a women's clothing store based in Columbia, S.C., conducts a written survey of her customers, asking them to tell her what they would like to see in the store.

Since many of Rackes' customers visit her store only a few times a year to get their seasonal wardrobes, their visits are often lengthy. "They told me they got thirsty, so now I provide refreshments," says Rackes. And because customers often are accompanied by family members, Rackes has supplied comfortable chairs for spouses and toys for children.

"Our customer has dictated the way we have grown, and she should, because we wouldn't grow without her," says Rackes. "Every time you do what your customers ask you to do, then they reward you by shopping more and telling their friends about your store."

Knowing your customers means you are better able to give them superior service. In his book *50 Powerful Ideas You Can Use to Keep Your Customers* (The Career Press), Paul R. Timm states, "Like it or not, customer service is the competitive battleground for the 1990s."

Timm, a management professor at Brigham Young University and author of 11 books on management and communications, offers a wide selection of practical ideas aimed at developing and maintaining effective customer-service skills. Among his suggestions:

■ Greet each customer promptly and like a guest.

■ Call your customers by name if you know them.

■ Smile, and break the ice with a compliment or a comment other than "May I help you?"

■ Explain how products work.

■ Underpromise and overdeliver; that is, provide the service faster than promised, or do anything else you can to give customers more than they expect.

■ Offer to carry merchandise to the customer's car.

■ After making a sale, mail the customer a thank-you note, call to make sure the customer is satisfied with the purchase, send out new-product information, and call customers to thank them for referrals.

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there. "It is a lot more fuzzy in the planning process, but in the implementation it is much more effective," she says.

Today, Rackes says, her $7 million company is stronger and "prepared for any adversity."

As Rackes found, retailers require skills beyond the mechanics of running a business. "It is instinct and vision," says Tracy Mullin, president of the National Retail Federation's division for government and public affairs. "It is sensing what the customer will want five years from now and understanding what is happening in the industry."

Mullin says that "the successful companies we've seen have the ability to be flexible enough to sense the changes coming and restructure the company to adjust to those changes." She adds that many smaller retailers, in order to survive, have been concentrating on their current problems rather than planning for the future.

PHOTO: [illegible] COMPTON—BLACK STAR

Small-store retailer *A.J. Cohen closed his family's women's apparel business when demographic shifts led to sales declines.*

One company that succumbed to mounting operating costs and a changed customer base was Lady Jane, Inc., a Savannah, Ga., women's-apparel store. Its owner, A.J. Cohen, was a member of the fourth generation of his family to run the store. Cohen closed the business in September 1992.

"I hated giving it up, since we had such a good following for generations," says Cohen. "It was a trauma. It took me three years to make up my mind."

In its prime, Lady Jane was in four locations in or near downtown Savannah and employed 36 people. Gradually, as Cohen's customers moved farther away from the locations of his stores, he found himself competing—unsuccessfully—with suburban shopping malls for his customers' business. "Our customers' habits changed because of where they were living," says Cohen. "Shopping malls were just more convenient for them than coming back into town to shop at my stores."

Increased competition and rising operating costs—particularly health-care costs—spelled the end for Cohen. "My health-care costs skyrocketed, and I was paying up to $131 per person per week," he says. The business lost money for three years, and during that time Cohen closed all but his original downtown store.

Cohen began using personal funds to keep the business going. "My accountant told me I was out of my mind and that I was going to go broke," he says, "and that I'd be better off padlocking the door. So that's what I did."

Drawing on his own experience, Cohen advises small-store retailers to keep operating costs as low as possible through means such as aggressively negotiating lease agreements so that you pay the landlord as small as possible a percentage of your sales as well as minimize your capital-improvement costs.

Cohen admits that his downtown location suffered because he did not respond to a fundamental change—his customers moved out to the suburbs but he didn't.

The continuing migration from city to suburbs has created new problems for downtown retailers, experts note. In the earlier years of the transition, suburbanites for the most part continued to commute back to the city each day to their jobs—and continued to shop at downtown stores. Now, however, the travel patterns have changed. Diane Crispell, executive editor of *American Demographics* magazine, says the biggest demographic shift influencing the retail industry is that more people are commuting to their jobs within and between suburbs rather than going into downtown areas. "That means the suburbs are picking up a larger share of the daytime population, which is when a lot of people do their shopping—on their lunch hour or going to or from work," she says.

Another important trend for retailers arises from the ways that people spend their time, Crispell says. More women are working—many of them full time—and that influences their flexibility to shop. "As a result, people are shopping on the weekends more," she says. People are taking more weekend trips, and shopping often is part of the getaway experience.

Other population factors that affect retailing, Crispell says, include the rising average age of Americans and their increasing levels of education. These changes mean retailers must pay more attention to customer service, she says. "Older customers and better-educated customers are more likely to complain," she says. "Retailers must think about their product and service from the customer's point of view."

Nick Donatiello, president and CEO of Arena Systems, a San Francisco retail software firm that conducts customer surveys, says: "Understanding shopper attitudes and how they translate into behaviors is what will ultimately enable certain retailers to survive."

That attitude is echoed by Pam Del Duca, president and CEO of The Delstar Group, a $10 million specialty gift and fashion apparel retail business based in Phoenix, Ariz. The Delstar Group was designated a 1992 Blue Chip Enterprise company for Arizona in the national award program sponsored by Connecticut Mutual Life Insurance Co., the U.S. Chamber of Commerce, and *Nation's Business*. The program honors companies that resourcefully meet business challenges and overcome adversity.

"There is only one reason that people will shop with us, and that is we are going to make them feel good," says Del Duca. The corporate philosophy is to give the customer whatever she wants—salespeople's thorough knowledge of products, wrapping of every purchase, and delivery.

A customer who enters a Delstar Group store, says Del Duca, "is bombarded with a bunch of things—the visual displays, the music playing, and the aroma of pot-


MAIN & COMPANY

PHOTO: T. MICHAEL KEZA

Investing in his employees *through ongoing training and meetings is the backbone of the survival strategies adopted by furniture retailer Daryl Routzahn, standing.*

pourri. And we use all those ways as opportunities to sell that merchandise."

The Delstar Group has a full-time employee responsible for store displays in the company's 16 locations. The stores are located in airports and resorts in and around Phoenix. Del Duca believes that "retail is theater," and she approaches her merchandise mix and store ambience with that in mind.

"Nothing we sell is necessary," she says, "It is all impulse, so we have a lot of fun with it." The stores sell a wide variety of novelty merchandise with Western themes, along with Southwestern pottery, native American arts and crafts, and specialty clothing. Del Duca will not disclose her profit margin but says it is "definitely above the 2 percent industry average."

Two years ago, Del Duca decided to expand the business by adding six stores. Instead of handling the expansion alone, she formed partnerships with three nonprofit groups in the Phoenix area—the Phoenix Urban League, the Phoenix Indian Center, and Chicanos por la Causa, a Hispanic community-development group. The nonprofits became affiliates with one or more of her stores, recruiting low-income employees in exchange for a percentage of the annual gross sales for 10 years.

The arrangement has worked well, and

Survival Tips For Small Retailers

All the independent retailers interviewed by *Nation's Business* have their favorite tactics for staying afloat in a down economy. The following compilation of those tactics could help you in your planning.

Keep Your Focus

Successful retailers emphasize the need to pay attention to what you have chosen to sell, how you sell it, and to whom. Since retailing is a cyclical business, staying focused is critical in order to outlast a down business cycle. Said one small retailer: "If you really believe in where you are going and are flexible in your path to get there, then there are few reasons why you won't accomplish your goal."

Empower Your Employees

Include your employees in every phase of your firm's planning, problem solving, and celebrating. The more included employees feel, the more likely they will remain loyal and give you superior effort. Provide ongoing training in every area of the store—from internal operations and product knowledge to refresher courses on check-cashing procedures. Ask your employees what *they* would like to learn, and then do your best to give them the support they seek.

Network With Other Business Owners

The problems facing small-business owners today are relatively the same for all, and many have concluded that it's helpful to connect with others who are experiencing the same frustrations in their day-to-day operations.

Make the most of every service or resource offered by the local chambers of commerce and the U.S. Small Business Administration, and consider local or regional business seminars that have low fees.

Reaching out this way can go a long way toward reducing the feeling of isolation experienced by many independent store operators. "Retailing is a grind, and the only way I stay fresh is that I do a lot of other things," says one independent owner.

Differentiate Your Business

Every retail store must offer a reason for customers to walk in the door. That means your merchandise mix must be different from your competition's, or the services you provide the customer must set you apart, or the atmosphere your store creates must be entertaining enough to attract customers. Says one small-store retailer: "If all you are going to do is put goods on the shelf and expect customers to come to your store and buy those goods, it is not going to work."

Get Information About Your Business

Information on every aspect of your business will help you run the business better. Your customers can help you.

The easiest way to get information from your customers is to ask them. To do that, get out on the selling floor, talk with customers, and watch how they react. Are your displays clearly identifiable? Is your merchandise easy to get to? Do customers get sales help when they need it? Do they have to wait too long to check out? And ask yourself if you hear your salespeople too often say, "Sorry, we are out of stock on that item."

PHOTO: DOON STEVENSON

For an off-site meeting *of managers of her Delstar Group—a gift and fashion retailing firm—CEO Pam Del Duca leads them on a raft trip down the Salt River near Phoenix.*

Del Duca hopes that other small retailers will consider similar partnerships. "It is a way to give something to the community and to help develop the next generation of entrepreneurs," she says.

Every employee undergoes ongoing training as a form of career development. Store managers are authorized to buy merchandise within their budget and without seeking higher approval. "The managers are right there with customers every day," says Del Duca, "so they know the customers very well."

Another vehicle for including employees in the company's mission is the sales plan. Every Delstar Group employee has an individual sales plan, and those who meet or exceed their goals are rewarded. "The bottom line is, when we grow people, we grow the business," says Del Duca. "Our investment is in our people."

Daryl Routzahn, president and CEO of Routzahn & Sons, Inc., a family-owned retail business in Frederick, Md., also stresses the people factor as the key to retail success. Routzahn & Sons has four full-line furniture and appliance stores, three women's fashion stores, and a carpet sales and installation division.

Like many other retailers, the Routzahn firm has experienced setbacks over the past two years because of rising costs and falling sales, losing money for the first time in its 40-year history.

The process of examining the business and exploring ways to turn it around, says Routzahn, "is almost like starting over. The way we conduct our business has changed drastically over the past two years."

The emphasis is still on the customer, Routzahn says, but "the people who work here are the greatest asset we have." The company provides training in every department, and education focused on products and customer service is a high priority. "We require our associates to be in training in all our areas of operations on a regular basis," says Routzahn, and their performance is rewarded.

Daryl Routzahn takes a decidedly positive attitude toward the future of retailing. "There is tremendous opportunity for those small retailers who reach out to their employees and customers and who are willing to be different," he says.

As a member of the National Retail Federation's Small Store Board of Directors, Routzahn stays in touch with dozens of retailers across the country. "The problem I hear most is the endurance factor," he says. Small-store independent retailers, he explains, "are tired."

Retail consultant Dan Paul sees the same profile in the retailers he counsels. "It's been a tough few years," he says, "but keep in mind that the economy is going to get better at some point, and the thing to do in the meantime is to examine your business, find the leaks, fix them, and look toward the future."

Paul suggests the following: Create a good budget, and stay within that budget by tracking it with updated information on your firm's performance. Those two tactics can help a retailer avoid overbuying, which creates cash-flow problems and excessive mark-downs.

A small-store retailer who cannot develop such a budget and stick to it, Paul suggests, should get a part-time merchandising manager. Retailers sometimes can't be good numbers crunchers, he says, because their central strength typically is merchandise selection.

Paul even sees a silver lining in the diminishing ranks of retailers. When the economy does improve, he says, small-store retailers will be able to "capitalize on taking a larger share of the pie because there are fewer players in the game."

Despite the many problems facing retailers, most retain confidence about their ability to cope and survive. Daryl Routzahn, whose businesses cover a good slice of the whole retail industry, sums up the sustaining outlook that he and most of his colleagues in the field share: "Right now, we are in a very difficult economic time, but our industry is cyclical. I do feel that retailers who know their businesses and are willing to work have tremendous opportunities."

Leslie Wexner, chairman of The Limited, Inc., a nationwide chain of women's sports-apparel stores, based in Columbus, Ohio, offers this formula for survival in an increasingly tough marketplace: Approach your challenges with the view that "every day is a new day, and I've got to win from scratch." NB

To order reprints of this article, see Page 72.

Resources

Small-store retailers can tap a wide variety of resources that offer training and information on the challenges they face.

The National Retail Federation has seminars for the small-store retailer. Subjects include merchandising, loss prevention, credit management, technology, marketing, sales training, and overall operations support.

The federation also offers a list of free publications on subjects of interest to small-store retailers. For more information, contact the National Retail Federation, Retail Services Division, 100 West 31st St., New York, N.Y. 10001-3401; (212) 244-8780.

Nation's Business offers packages of reprinted articles on several subjects that are important to retailers:

"Successful Sales & Marketing" (Reprint Package #8911), "Smart Employee Management" (#8915), and "Managing Small-Business Benefit Plans" (#8914).

Each package of six articles costs $9.95. For ordering information, see Page 72, or call 1-800-692-4000.

FINANCE

Nothing Ventured, Nothing Gained

That's what some states and local organizations are saying, as they try to help small firms find capital.

By Joan C. Szabo

In 1982, when Mitchell Kertzman needed $750,000 to expand Powersoft Inc., his Burlington, Mass., software firm, banks wouldn't lend him the money. He turned to venture-capital firms, but they wouldn't let him have any money, either.

Kertzman then took his request to the Massachusetts Technology Development Corp., (MTDC), which is the state's publicly funded venture-capital organization.

The state supplied Kertzman with $150,000. Following the state's lead, private venture-capital funds provided Powersoft with an additional $750,000. So Kertzman actually obtained $150,000 more than he first sought.

Venture capital *from a Massachusetts agency, says Mitchell Kertzman, enabled his firm, Powersoft Inc., to expand.*

The initial commitment from the state fund, says Kertzman, "was invaluable to us. It served as an important catalyst to bring in professional venture capitalists."

As a result of this infusion of capital, he says, Powersoft was able "to open sales offices, hire salespeople, and fund a successful marketing campaign." Kertzman grew Powersoft from a one-man firm to one that now has 170 employees. The company, which recently went public, had revenues of $21 million in 1992.

Venture capitalists are generally willing to assume more risks in financing a small company than banks are. In return, though, the venture capitalists usually want an equity stake, and not just interest on a loan; they hope for a sizable capital gain when the company is sold, or when they sell their stock.

State venture-capital funds, like the one Kertzman tapped, usually receive their initial capital from the state government. The state money is used to leverage larger investments from private sources. The idea is to create jobs and strengthen a state's economic base.

Massachusetts established its venture-capital fund in 1978 through a state law enacted to address a "capital gap" that was hobbling start-up and early-stage technology companies in the state. Since the fund's inception, the state venture-capital organization has invested in 63 companies.

The Massachusetts venture-capital fund is just one of the many business-development programs that state governments have established in recent years to assist entrepreneurs.

"States are taking a variety of approaches in this area—everything from direct state involvement in venture capital to providing special tax incentives for private venture-capital investing," says Miles Friedman, executive director of the National Association of State Economic Development Agencies (NASEDA). Headquartered in Washington, D.C., NASEDA represents the directors of state economic development agencies.

States with state-aided venture-capital funds include Connecticut, Massachusetts, Missouri, New York, Indiana, Maryland, North Carolina, Oregon, Ohio, Pennsylvania, and South Carolina.

Some professional venture capitalists argue that states should not be in the venture-capital business because they lack the expertise that private venture capitalists possess. State fund administrators counter that state-assisted funds are serving a key role in locating early-stage financing for small companies.

That role is especially significant in today's venture-capital environment. In recent years more venture-capital funds have been investing large amounts of money in later-stage investments, leaving many entrepreneurs unable to raise the smaller amounts of money needed to get their companies up and running.

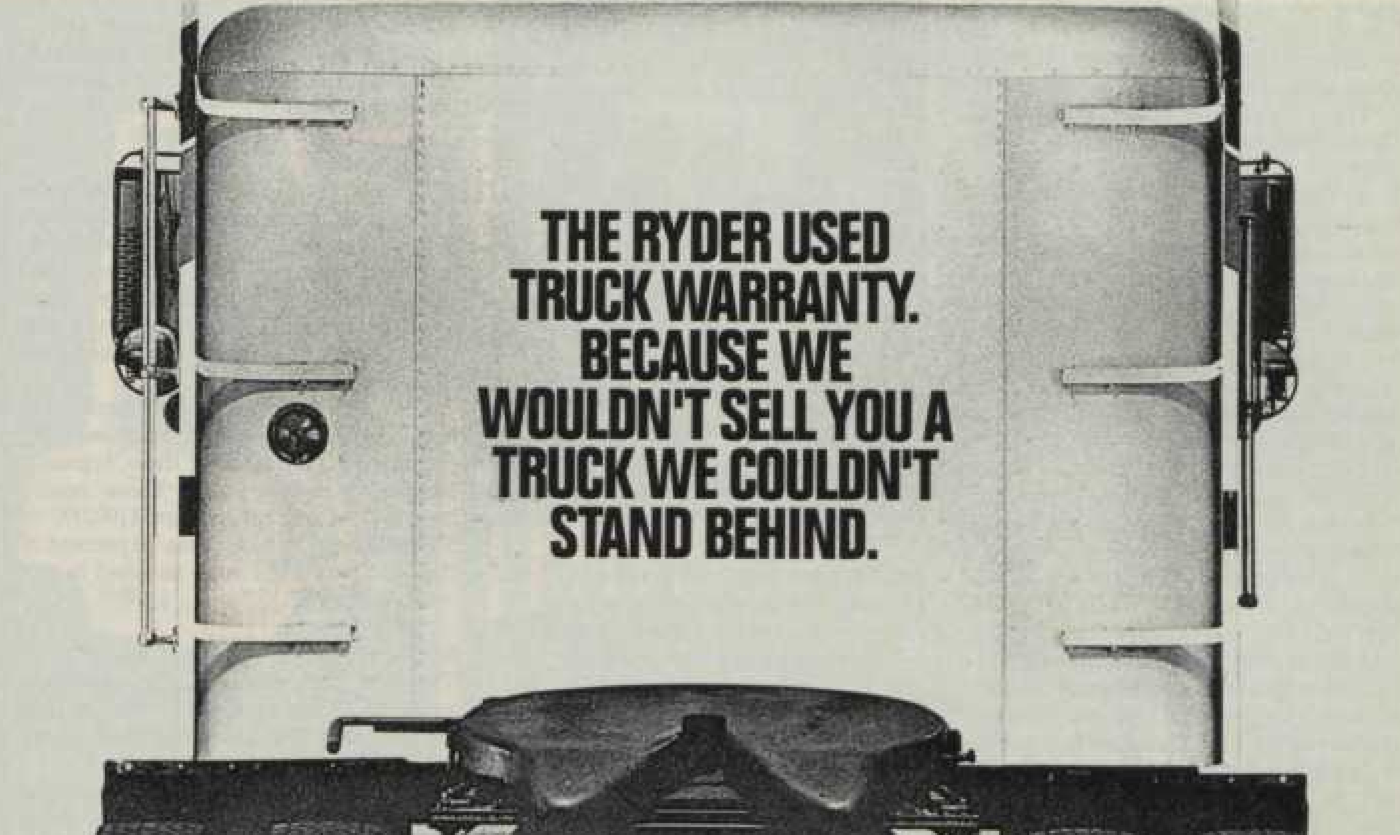
"Private venture capitalists aren't getting in at the early stage of a business, because there are too many failures," says David Grand, a tax partner in the Albany, N.Y., office of the accounting firm Coopers & Lybrand. "It takes too much time and effort on the part of private venture capitalists to coddle the companies for the return they are likely to get."

According to author William Alarid, "state financial programs have become the prime source for small-business financing." While many states have not established venture-capital funds, most do have some type of loan program to foster small-business formation and growth. In his book *Money Sources for Small Business* (Puma Publishing), Alarid lists loan programs available in 49 states, the District of Columbia, Puerto Rico, and the Virgin Islands.

"Besides loans," Alarid, writes, "most states have numerous other programs that may be applicable to your business." Some examples are contracting with the state to provide services, selling products to the state, obtaining export assistance, and participating in a business support program.

State governments have not been alone in moving to plug the "capital gap"; some private organizations have also been finding ways to bring entrepreneurs and venture capitalists together.

One example: For the past three years, the Metropolitan Tulsa Chamber of Com-


THE RYDER USED
TRUCK WARRANTY.
BECAUSE WE
WOULDN'T SELL YOU A
TRUCK WE COULDN'T
STAND BEHIND.

merce has held an annual investment forum that draws private investors, investment bankers, and venture capitalists from across the country.

This year's forum, called "Forecast '93: Tulsa Investment," will be held in September.

A five-member selection committee, consisting of two certified public accountants, a banker, a venture capitalist, and a chamber member, screens about 50 business plans and selects 19 companies to make short presentations at the forum.

The Tulsa investment forum has been instrumental in helping Theresa Killgore attract the venture-capital interest that she needs to get her new company, Future Fuels, off the ground. Future Fuels designs and manufactures compressors for the compressed-natural-gas industry.

In addition, the company installs and maintains compressed-natural-gas fueling stations.

Killgore, who is seeking funding of $1.5 million to $2.5 million, says she was able to interest five potential venture-capital investors in her company after her presentation at last year's Tulsa forum. She and her business partner want to use the funds to build and install 10 fueling stations.

Killgore is a petroleum engineer and president of Killgore Investments Inc., an oil and gas production company that operates wells in Oklahoma.

Following are overviews of the workings of three state-aided venture-fund programs.

PHOTO: STEVE JENNINGS

Petroleum-company *entrepreneur Theresa Killgore, shown with employee Leon Jones, seeks venture capital for her firm.*

Massachusetts

Although MTDC's investments in a company can reach a maximum of $500,000, most are in the $100,000 to $250,000 range. Investments are made as debt, equity, or a combination of both.

The debt portion of the financing is usually a long-term, unsecured, subordinated note, often with a partial moratorium on principal repayment so that initially only interest payments on the debt are required.

In exchange for such favorable debt financing, MTDC seeks an equity incentive such as a warrant to purchase stock. With equity investments, MTDC and its private-sector co-investors generally will purchase preferred convertible stock representing a combined ownership of the company ranging from 30 to 45 percent.

To qualify for MTDC financing, a company must meet a number of conditions. Among them, the firm must be located in Massachusetts, must be technology-based, and has to be able to produce significant growth in employment. In addition, the firm must demonstrate that it has been unable to finance its expansion from conventional sources, and it must be able to show a high rate of return on the money already invested.

Last year, MTDC realized a net gain of over $2.5 million on its investments. During its entire investment history, which spans more than 12 years, MTDC's internal rate of return has been in excess of 15 percent.

Unlike private venture-capital firms that distribute profits to shareholders or limited partners, the state venture fund reinvests any profit in another batch of start-up companies. "We have been able to put over $9 million back into the investment fund from the capital gains we have realized since our inception in 1978," says John Hodgman, MTDC's president. Total losses in that period were approximately $4.2 million.

Pennsylvania

This state, which already had five venture-capital funds providing seed money for technologically innovative small firms, recently created the first venture-capital funds for the support of minority-owned small businesses. One fund serves the eastern part of Pennsylvania, the other the west.

The new venture-capital funds will invest in minority-owned businesses by taking an equity stake in them, typically for five to seven years. These equity investments will range from $100,000 to $700,000, with no more than 10 percent of the fund permitted to be invested in any one company.

New York

The New York State Science and Technology Foundation was launched in 1983 as a vehicle for investing in start-up technology companies.

The foundation usually invests around $250,000 in a company. For every dollar invested from the state fund, the foundation requires a $3 match from outside private venture funds. Entrepreneurs typically use the state funds to complete development of a promising new technology and bring it to market, says Brian Stratton, the foundation's public-information officer.

The foundation also operates a computerized matchmaking program for companies seeking venture financing. Registering with the program allows these firms to be screened confidentially by potential venture-capital investors.

In these states and others, entrepreneurs who are seeking financing should be sure to seek assistance from state and local government sources.

"At the state level, start with the cabinet-level development agency, sometimes called the Commerce Department or the Economic Development Department," says NASEDA's Friedman.

There are counselors within those departments ready to help small-business owners looking for financial and other kinds of assistance.

Those counselors also should be able to point the way to local-government programs—and programs like the Tulsa chamber's—for which a small-business owner may qualify.

As Friedman says, such programs are a resource that a small-business owner simply can't ignore. NB

To order reprints of this article, see Page 72.

To Learn More

These sources can provide information on venture-capital financing:

National Venture Capital Association, 1655 N. Fort Myer Drive, No. 700, Arlington, Va. 22209; (703) 351-5269. The members of this association are venture-capital organizations. A directory of the association's members can be purchased for $15.

National Association of Investment Companies, 1111 14th St., N.W., No. 700, Washington, D.C. 20005; (202) 289-4336. This association's members are investment companies that provide minority-owned small businesses with venture capital and management guidance.

Money Sources For Small Business: How You Can Find Private, State, Federal, and Corporation Financing, by William Alarid. Available in paperback for $21.95, shipping included, from Puma Publishing of Santa Maria, Calif. For credit-card orders, call 1-800-255-5730, extension 110.

MANAGING

Has Uncle Sam Got A Deal For You

By George Chelekis

Looking for great deals on office equipment and furnishings? You can find them at the federal government's auctions of billions of dollars in assets seized from failed financial institutions.

One example: A stockbroker recently paid only $5,000 for almost four truckloads of office furniture. His booty included enough conference tables, credenzas, chairs, and desks to equip a 40-person office.

The Resolution Trust Corp. (RTC) is the federal agency charged with disposing of some $35 billion in seized real-estate and loan portfolios from failed savings and loans. The RTC is also trying to get rid of $10 billion in "personal property," ranging from office furniture and computers to art collections and Arabian show horses.

PHOTOS: ©STEVE JENNINGS

You can get great bargains *at Resolution Trust Corp. auctions like this one in Tulsa, Okla.—but, says auctioneer Kurt Kiefer, you have to do your homework.*

To handle its personal-property inventory, the RTC has created a separate furniture, fixtures, and equipment (FF&E) division, which holds auctions around the country. Business owners who frequent these auctions pay only a fraction of retail cost for used office furniture and equipment.

A Minnesota wholesaler found $700 office chairs selling for only $20 each, roughly three cents on the dollar. Less than two weeks after making his purchase, that broker resold the chairs for five times as much as he paid for them.

The auctioned furniture and equipment can even be brand-new, as in the case of a June 1992 auction of a Southeast Bank branch in Miami. Nearly all the merchandise was still in the original boxes because the bank was seized by federal regulators a few days before the branch was scheduled to open.

"But deals like those don't just fall into your lap," says Kurt Kiefer, a Fergus Falls, Minn.-based private auctioneer who has contracted with the RTC to sell a large part of its holdings that are not real estate. "You've got to go out and find them."

Kiefer advises prospective auction-goers to check the local newspaper's classified ad section for auction announcements. Another way buyers can get FF&E auction dates is by calling the asset-sales hotline at 1-800-782-3006.

Also, call RTC's national headquarters at 1-800-348-1484 and ask for the sales center nearest you. Upon request, the sales center will add your name to its mailing list. Private auctioneers are legally bound by government contract to send an auction announcement to anyone who inquires about RTC auctions.

When you attend your first FF&E auction, expect a flurry of activity. Merchandise can sell at a pace of 80 lots per hour (a lot can range in size from one item on up), and total sales average $150,000 per auction.

Success at an FF&E auction depends on how well prepared you are. Dealing with an auction's swiftness, adjusting your hearing so you can comprehend the words and numbers flying out of an auctioneer's mouth, knowing whether or not you are finding a great deal—these are challenges that first-timers must meet.

You can win more than half the auction battle by intelligently using the auction preview, an inspection period a few days or weeks before an auction takes place. "Novices don't realize there's an inspection period," Kiefer says. "And even when they hear about [it], they either don't attend or don't use that preview time wisely," by focusing on the merchandise they really want.

Don't think attending a preview will be like shopping at an office warehouse—there will be no price tags on the goods. You'll have to decide yourself how high you're willing to go against competing bidders.

Kiefer recommends that serious buyers bring a Polaroid camera to the preview and take pictures of what interests them. "Jot down notes on the back of the photo describing the inventory you're interested in buying," he suggests. "Then go out and comparison shop; call a few dealers and wholesalers and find out the going used market rate of what you want to buy." If a used lateral file cabinet retails for $300 but dealers wouldn't pay more than $75 for it, "set your bid at the wholesale rate and try to buy it for less," he says.

To get started at FF&E auctions, a business owner might bid only on an inexpensive lot, such as a large box of desk accessories. Even so small a purchase can make a trip to the auction worthwhile. "You'd be surprised how many people will pay $14.95 for a stapler at a stationery store," says Kiefer—the same stapler that might sell for as little as 25 cents in a boxed lot at an auction.

At future auctions, you can build up to larger purchases—perhaps enough to furnish your entire office. You may even graduate to wholesaling to others for profit. NB

George Chelekis is the author of The Official Government Auction Guide *(Crown) and* The Action Guide To Government Grants, Loans and Giveaways *(Perigee). He lives in Clearwater, Fla.*

Small-Business Computing

A logical bookkeeper; plugging "what-if" scenarios into taxes; calculating the "maybes" with fuzzy logic.

By Ripley Hotch

ACCOUNTING

Power For The Midsize Company

MICA IV has been, from its first release, a powerful, full-featured accounting package with every standard program you could want.

Its newest release has added some major capabilities, however.

MICA has always been relatively easy to use (for an accounting program), and it takes things in a reasonable order. It is, like all the high-end DOS accounting programs, a collection of programs that work together.

In its revision called Release 2, the package has made all the parts work together even better and has brought in what it calls the "Intelligent Query" report writer.

The report writer allows you to use preformatted reports, custom reports, bar graphs, or data that can be exported to other programs. Because the modules in earlier versions did not exchange figures until they were closed, reports could not be completed until all the programs were closed and the figures updated.

Keith Jackson, controller of Parker & Sons, an El Paso, Texas, plumbing concern with about 38 employees divided between two companies, has been a MICA user for a long time. He says the added convenience of the new release has made his job a lot faster and easier.

"The new version allows me to select which description fields from payroll will show up in the job-costing module," Jackson says. "Now I can have the employee's name rather than having to remember the number."

Jackson is especially impressed with the report writer. Plumbing contracts require somewhat complex job-cost scheduling and manipulation of what income can be recognized when.

Jackson used to transfer the figures from MICA into a spreadsheet he had set up to make his calculations. Now he can do the same operation using the report writer, "and that will save me quite a bit of time."

PHOTO: RAÚL SALCEDO—BLACK STAR

Plumbing-company controller *Keith Jackson says the MICA IV accounting program "flows a lot more like a normal accountant or bookkeeper flows a transaction."*

It is now possible to reconcile any of the modules on screen and keep a good deal of the data current. (Jackson keeps three months of accounts payable.)

Accounting programs are often hard to like because there are so many ways of putting together the same kinds of information. Many accountants and business people go through several accounting programs until they find one that suits them. Jackson is specific about what MICA does for him:

"The thing I like best about MICA is that it flows a lot more like a normal accountant or bookkeeper flows a transaction. The logical steps work that way. Many people in small companies are not trained in accounting or bookkeeping entry. If the program doesn't flow logically from the transaction, it's a nightmare."

For more information on MICA, call 1-800-448-6422. ■

TAX SOFTWARE

Professional Programs On The PC

For some years, Best Programs, of Reston, Va., has provided professional tax planners and preparers with powerful software for corporate returns.

Undoubtedly, the company watched with interest the success of personal tax preparation programs like TurboTax from Chipsoft, Tax Cut from Meca, and others from J.K. Lasser and Parsons.

Now Best is offering corporate tax planning and preparation for the personal computer.

Corporate taxation is complicated and fraught with pitfalls, of course, and errors in preparation and filing can be costly for the company that makes them.

Best Programs' two new programs fall under the title **Corporate TaxStrategist**: One is **Planning & Strategy**, and the other is **Preparation & Compliance**.

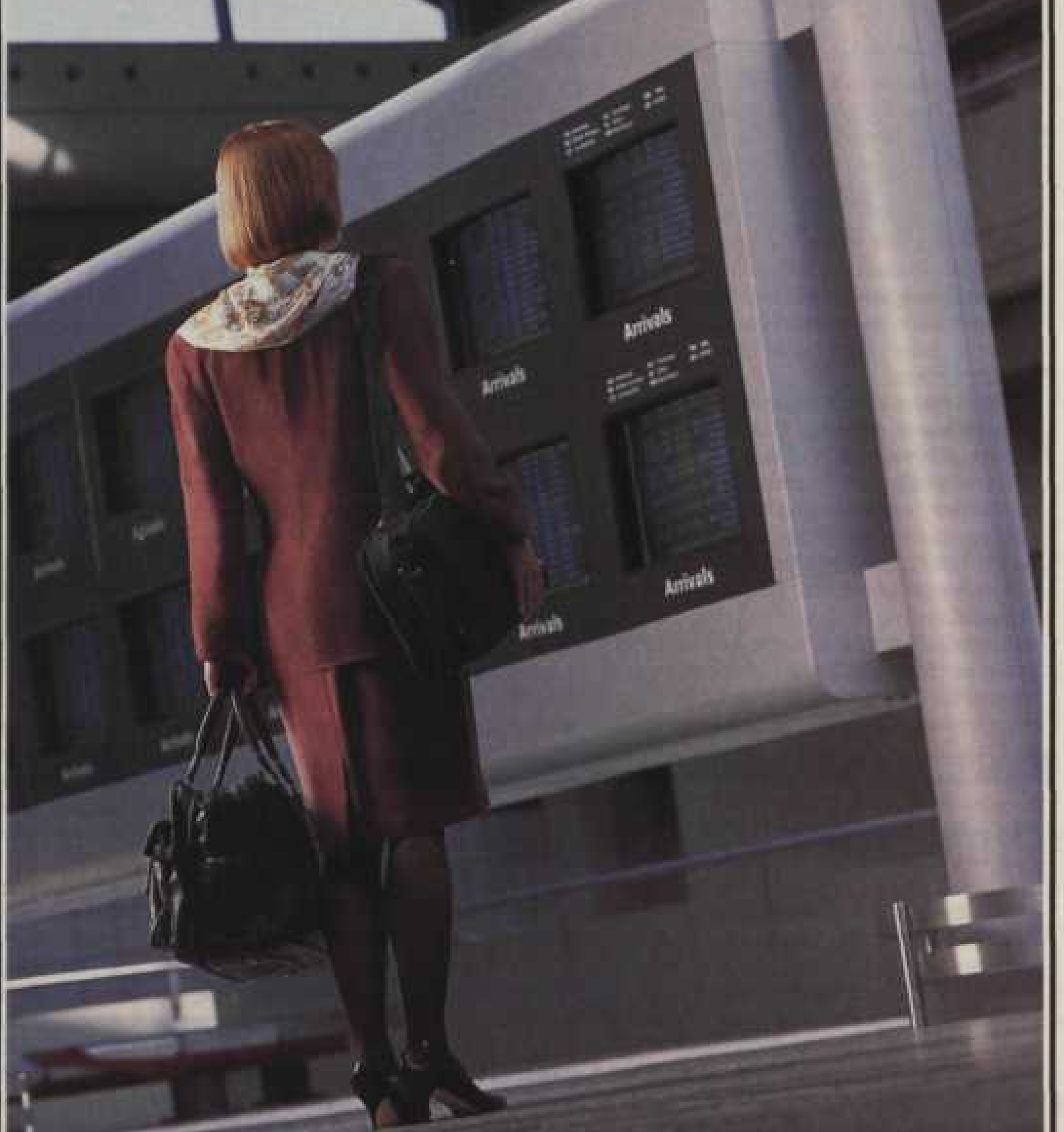
Obviously, at this point in the year, there are advantages to using both. The programs allow you to try out "what-if" scenarios to see the effects of decisions you might be planning, such as the purchase of a new building.

The company is offering a 60-day free trial of the two programs, which are priced at $1,495 for the introductory period.

For more information, call 1-800-829-2677. ■

Small-Business Computing continues on Page 38.

WHY NOTEBOOK DESIGN IS AND AIRPORTS AS IT IS ABOUT



THE COMPAQ LTE LITE. FOR THEIR TIME WORKING. AND

OK, we're not saying you live on three hours of sleep, or that you eat Chinese takeout every night. And even if you do, we're not saying that a COMPAQ LTE Lite 486SL notebook is suddenly going to change all that.

What we will say is that it could make your life a lot simpler. Particularly if you travel.

You see, on one hand, these new computers are lightweight, compact notebooks (6.3 pounds, 8.5" x 11"). They're available with three different screens: the COMPAQ UltraView – the world's only black and white, active matrix VGA; a 256-color active matrix; and the highly acclaimed passive monochrome MaxLight.

Simply slide the LTE Lite notebook into the COMPAQ Desktop Expansion Base and you have a full-function, fully connected desktop computer.

There's the integrated EasyPoint trackball. And each has a range of innovative power-conservation features to help extend battery life.

But what also makes these notebooks unique is

PEOPLE WHO SPEND HALF THE OTHER HALF WORKING.

that they double as full-sized, full-featured 486 desktop PCs.

By simply sliding your LTE Lite notebook into the COMPAQ Desktop Expansion Base, you're instantly connected to printers, peripherals and your network. No floppies, no fumbling with wires, no headaches. And the extra slots and drive bays increase expansion capabilities. Best of all, you're using the same hard drive. So whether you're in the office or on the road, your files are always with you. The expansion base also offers you a keylock to secure your notebook.

Of course, if you don't need all the functions of a full-sized PC, but want easy connection to your peripherals, choose the new Enhanced QuickConnect – a one-step system with integrated Ethernet and SCSI support.

And like all of our PCs, these notebooks are backed by CompaqCare. Which includes a free, three-year worldwide warranty, and a year of free on-site* service in the U.S. or Canada.

For more information about the COMPAQ LTE Lite 486SL notebooks, call 1-800-345-1518. Because if you work out of the office on a regular basis, you really lead two lives. So they're perfect for you. And you.

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MANAGEMENT

Clear Answers From Fuzzy Logic

"Expert systems" have become reasonably familiar in the world of manufacturing management, but "fuzzy logic" is fairly new. When you put the two together, most computer users—and many experts—are lost.

Most computer programs use "either/or" calculations, or what is technically referred to as Boolean logic, a name derived from a mathematical system used in computer technology. Something either is or is not.

Fuzzy logic, however, allows "maybe" and "sort of" calculations.

There are practical consequences and strong commercial uses for fuzzy logic. Consumers already have become used to the advantages of fuzzy-logic circuits in a wide array of products, from camcorders to refrigerators.

In business, however, the function of fuzzy logic may not be immediately apparent.

FuziWare, Inc., based in Knoxville, Tenn., has specialized in writing fuzzy-logic applications for manufacturing and business decision making. Most of its products are expert systems, which use rules and the experience of the experts in a company in a database that can give a quick answer to a complex question.

Fuzzy logic works best in a situation of constantly shifting variables where a decision must be made quickly. A company may have an enormous amount of information in its database and may have to use that information to give quotes to customers. Often the company has to spend weeks crunching numbers and estimating prices of raw materials, labor, freight, and so on, consulting its experts at every turn and change, to come up with a quote that will get the business without producing a loss.

FuziCalc *lets the user run "what-if" possibilities.*

FuziWare's **FuziQuote** works very quickly, taking only a few moments to come up with quotes based on the company's history with similar situations. Of course, it needs to be trained—that is, you tell it how to do things, and it learns; this is not the same as rewriting the software for a particular user's purposes.

FuziQuote isn't cheap: It starts at $20,000.

There's also a fuzzy-logic spreadsheet, called **FuziCalc**, that allows the user to run multiple "what-if" possibilities. Each cell of the spreadsheet can handle hundreds of variables, and different cells can be added to the calculations.

As an example, Lowell Smith, marketing manager of FuziWare, cites an environmental company that had a model running in a standard spreadsheet program that required 16 spreadsheets to hold the model and 18 hours to run one time. The FuziCalc spreadsheet needed only one sheet and 30 minutes to do the same thing.

No special machines are required: FuziCalc runs under Windows at the usual spreadsheet price of $495. But if you have a business that uses lots of variables that need to be recalculated often, a fuzzy-logic program might be what you need.

"This kind of smarter software may well be the wave of the future because it almost seems to 'think' like you do," says Smith.

For more information: 1-800-472-6183.

OFFICE ENVIRONMENT

Productivity From Control

The gains in productivity from the introduction of personal computers have been slower than industry experts had ever expected.

Although there are strong arguments that PCs have not been worth the investment, there are strong arguments too that the machines have allowed workers to do their jobs differently and more intelligently.

Only recently have building managers and information-systems experts begun to look closely at the conditions related to the productive use of workstations.

In 1991, Johnson Controls, Inc., of Milwaukee, introduced its **Personal Environments RH Modules** (PEMs), a way of allowing each person to control the temperature, light level, sound level—even the fragrance—of his or her work zone.

The first large-scale installation of these PEMs was carried out in a new building designed to hold 500 employees of West Bend Mutual Insurance Co. in West Bend, Wis.

Johnson Controls invited Rensselaer Polytechnic Institute, in Troy, N.Y., to study the workstations' effects on productivity at West Bend.

The study found an increase in productivity of 2 percent, although West Bend executives say they think it is actually closer to 6 or 8 percent.

"The groundbreaking aspect of this study is that for the first time there is hard evidence that workers are more productive when they can control their environment," says Terry Weaver, vice president of Johnson Controls' Systems Products Division.

Deleting The Confusion From Transferring Files

Laptop computers are the hottest-selling equipment in today's office automation. Laptops are used as supplementary, on-the-road, or even primary computers for salespeople and office workers of all descriptions.

Along with the mobility comes the problem of having two work spaces. Everyone who has worked on two machines has faced the problem of suddenly being unsure which files are the most current, or of getting a lot of files from one station to another.

Add to the mix the complication of networks, and you have the need for **LapLink**, the latest version of the good old standby file-transfer software.

This fifth version adds compatibility with networks, so that you can transfer files from one workstation to another, from a portable on the road, to and from diskettes, or to other hard drives.

LapLink has kept its eye on what it does best: simple file transfers that can be scheduled to operate unattended (and that includes backups). The software can check to update only what you want changed, or it can duplicate an existing drive to another (very handy for network managers who have to create a new workstation and don't want to reinstall every program).

LapLink V has a list price of $169.95. Upgrades are $49.95; network licenses are available.

You Can See Clearly Now

We've come across an interesting new kind of screen filter. **PC SoftLens** is a film that adheres directly to the screen of the computer (not with glue, so it's easy to remove). It sharpens the characters on the screen and reduces reflections.

It does work, and its suggested retail price is $34.95. For more information: 1-800-729-1345.

NB

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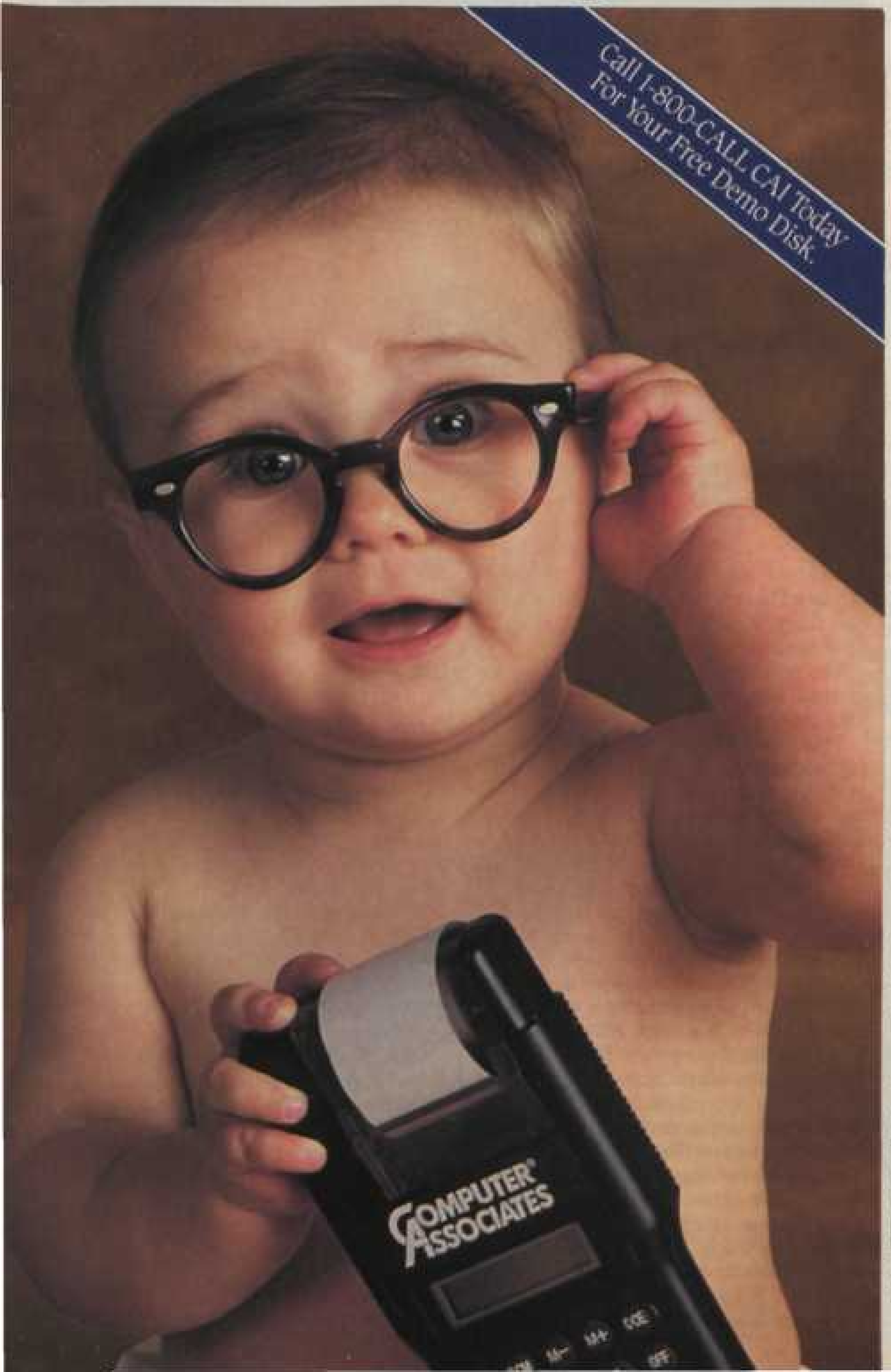

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EMPLOYMENT

Efforts That Help Beyond Summer

Summer jobs through public-private partnerships improve young people's skills as employees—and as students.

By Joan C. Szabo

In Louisville, Ky., several local public and private organizations are collaborating to help find summer jobs for many of the area's at-risk young people. The Louisville Education and Employment Partnership, begun in 1988, helped nearly 900 high-school students land summer employment last year. The partnership includes the Jefferson County Public Schools, the city and county governments, the Louisville Chamber of Commerce, and the Louisville Private Industry Council.

In response to a recent challenge made by President Clinton to public and private groups to find more summer jobs for young people, the Louisville partnership this summer hopes to boost the number of jobs it helps youths obtain to nearly 1,100.

That effort is an example of what communities across the nation are doing to meet Clinton's goal of summer employment for 2.6 million young people who might not otherwise have jobs while school is out. *Together We Can*, prepared jointly by the Department of Health and Human Services and the Department of Education, is a guidebook on how communities can improve and coordinate their education, health, and social-service programs for at-risk children and families. (The book is $11 from the Superintendent of Documents, P.O. Box 371954, Pittsburgh, Pa. 15250-7954. Specify stock number 065-000-00563-8.)

In addition to employment, the Louisville program provides students with other important benefits, including help with their school subjects and training in how to get a job and how to perform well in the workplace.

Student participants sign an agreement indicating their willingness to achieve 95 percent attendance in school, improve their grades, and meet employers' expectations. In return, the partnership agrees to help the students find meaningful part-time, summer, and full-time jobs.

The program has "opened up a vision of opportunity for the students," says Angelo Vaccaro, executive director of the partnership. "The students' thinking has shifted from one of dropping out of school to one of thinking about a job or additional learning once they graduate from high school."

In a survey of all companies that participated in the partnership, over 95 percent reported a positive experience.

PHOTO: BILL LUSTER

High-school student *Kimberly Rogers gains job experience—with Todd Saylor at the Corradino Group architectural firm—through the Louisville partnership.*

Comments showed that students were prepared to complete job applications and had the necessary interviewing skills to be considered for employment.

The partnership is similar to hundreds of local programs nationwide set up to hire young people during the summer.

This summer, however, Clinton is asking business for a greater commitment—to forge more partnerships to improve and expand the summer-jobs and education programs. Addressing the Summer Challenge conference in Arlington, Va., the president asked business people to help make a difference in the lives of hundreds of thousands of young people this summer by creating meaningful jobs and meaningful learning experiences.

One of the administration's goals is for students to have a more effective transition from the classroom to the workplace. "Without meaningful, stimulating work or educational opportunities, young people face large learning gaps during the summer break—gaps that lead to significant learning loss—especially in English and math," Education Secretary Richard Riley told the gathering.

The conference, jointly sponsored by the Department of Labor and the Department of Education, brought together state and local officials responsible for summer programs for young people, business representatives, school superintendents, Head Start coordinators, Job Training Partnership Act (JTPA) officials, and representatives of community-based organizations.

As part of his summer-challenge push, Clinton also appeared before a national satellite town meeting at the U.S. Chamber of Commerce to discuss ways to help students make the transition from school to work. The town meeting was made available to more than 3,000 towns and cities nationwide.

A few days after the teleconference, the administration's education bill was introduced in Congress. The legislation is an important component in the White House's efforts to make education and training more relevant to the workplace.

The measure, called the "Goals 2000: Educate America Act," would make the six national education goals part of formal national policy and law. As governor of Arkansas, Clinton helped shape the goals, which were adopted in 1990 by President Bush and the nation's governors.

As the Louisville partnership demonstrates, employing at-risk youth in the summer can enhance their educational attainment and better prepare them for the workplace. NB

REGULATION

Easing Small Firms' Credit Crunch

By Joan C. Szabo

President Clinton's new program to encourage bank lending to small firms is seen as a dose of the right medicine, say representatives of small business and banking.

The program's regulatory changes—being implemented now and expected to be fully in place by mid-June—are designed to reduce red tape at banks and to allow strong, well-managed banks to grant loans with only a minimal amount of paperwork required of the borrower.

Many bankers and borrowers maintain that overly restrictive lending regulations and red tape have caused a slowdown in bank lending, which in turn has kept small companies from obtaining the financing they need to start or expand their businesses.

Under the new program, the administration is removing a requirement that appraisals be made of property used as collateral on a loan in certain situations. Banks often are capable of making their own internal appraisals of such property.

The appraisal change could aid small firms because they typically borrow with only the security of real estate—usually the equity value in a home.

In addition, an appeals process for bankers will be established, allowing them to seek a review of examination decisions they consider unfair.

Under the administration's recently announced plan to help reduce the paperwork burden on banks and loan applicants, healthy banks will be allowed to make small-business and farm loans based primarily on the business's reputation; a bank's total loans of this type cannot exceed 20 percent of its capital.

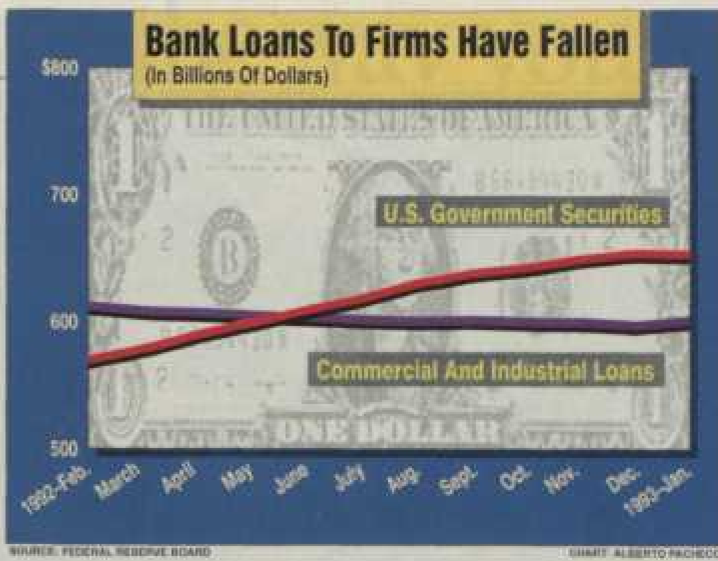
This regulatory change will enable the nation's banks to make a total of $38.2 billion in commercial loans based on the character of the borrower. These so-called "character loans" rely more on the borrower's reputation in the community than on strict compliance with the rules that require loans to be backed by financial statements, appraisals, and tax returns.

Under this part of the president's program, these loans will not be criticized by examiners if the bank doesn't have documents such as the borrower's most recent cash-flow statement or an updated property appraisal. But the bank must

PHOTO: ©THOMAS A. PRICE

Bank president *Steven Price, left, of Immokalee, Fla., examines crops with farmer Morris Lewis in nearby Felda.*

Banking-rule changes by the administration should stimulate the flow of loans to small companies.



have on record an evaluation of its ability to collect the loan and whether its reserves against the loan are adequate. The amount of a single loan under this program cannot exceed $900,000, or 3 percent of an institution's capital, whichever is lower.

"The administration's character-loan proposal should make it easier [to obtain a loan] for firms that have established a long or successful relationship with a banker," says Richard L. Lesher, president of the U.S. Chamber of Commerce. "The administration has gotten at the key elements that have thwarted many small-business loans in the recent past."

William H. Brandon Jr., president of the American Bankers Association, says the administration's proposal "will instantly allow bankers to make vitally needed loans to credit-worthy small businesses that have had trouble meeting the government's magic formulas."

The bankers association strongly believes, however, that these regulatory changes must be followed up with substantive legislative changes.

According to Lesher, it is vital for banks to lend more to small businesses to boost economic growth. Government statistics indicate that at the end of 1992, commercial banks were holding more of their assets in the form of government securities than they were providing in commercial loans to business borrowers. (See the chart above.)

"These numbers suggest that existing banking laws and regulations have made it more advantageous for banks to invest in securities than provide business loans. This is one way to finance the deficit, but it certainly doesn't encourage economic growth and small-business job creation," Lesher asserts.

Numerous elements of the president's plan to encourage banks to grant credit have been advocated by the U.S. Chamber since 1990. Among them are allowing bankers to use their judgment in granting loans based on the borrower's past performance and character, reducing paperwork requirements in the loan process, changing onerous appraisal requirements, and enacting an appeals process for banks.

The character-loan change is especially valuable to small firms. Steven Price, president of First Bank of Immokalee, in Immokalee, Fla., says his bank has continued to make character loans to local small companies and farmers throughout the credit crunch. "We are looking at people we have known for some time, who have been in the community and have been in business and have proven themselves," Price says.

However, Price notes that his bank does not ignore a company's financial statements, and it continues to maintain sound banking practices.

Four federal agencies that regulate banking—the Comptroller of the Currency, the Federal Deposit Insurance Corp., the Federal Reserve Board, and the Office of Thrift Supervision—are implementing the president's rule changes. It was expected to take the agencies about three months from mid-March to complete all of the steps required to bring about the reforms.

Some economists say they believe that President Clinton's changes will make only a slight difference in loans to small business.

Thomas A. Gray, president of the Center for Small Business Studies, in Washington, D.C., and former chief economist of the Small Business Administration, says: "There is going to be a marginal difference; a few loans will get through that wouldn't get through otherwise. There still are laws in place, and the bankers know they will be held to the constraints of the laws."

Most business representatives, including the U.S. Chamber and the American Bankers Association, agree that changes in the existing banking laws, in addition to the regulatory reforms, are essential to maximize lending to credit-worthy businesses.

Florida banker Price says Congress must change banking laws if genuine reform is to take place. Instead, he says, "lawmakers have been saying that they are going to manage more and more of the day-to-day activity of banks."

The Chamber is urging passage of legislation that would further streamline bank regulations to increase the availability of credit. Says Lesher: "It is important to reform the deposit-insurance system so that less regulation is necessary." NB

Borrowing Tips

If you own a small business and need a loan, ask your banker about President Clinton's recent changes in banking regulations to see if you might obtain some of the new lending that is expected to result, says Diane Casey, of the Independent Bankers Association of America. The association, based in Washington, D.C., represents medium-sized and smaller community banks.

In addition, as a business owner, you should be well-prepared when requesting bank financing. Casey says it is important to tell your banker what you are going to do with the money and how you plan to pay it back.

Bankers also want to be sure you can manage your business. Be prepared to provide a good deal of information about your company, including data on your accounts payable, accounts receivable, sales volume, insurance coverage, and the salaries of the owner-manager and other company officers. "The more information you can provide your banker the better," she says.

SPECIAL REPORT

Business Insurance Will Cost You More

Last year's catastrophes hit property and casualty insurers hard, and they'll try to recoup through higher premiums for small firms.

By John S. DeMott

PHOTO: ©JOHN BERRY—GAMMA LIAISON

Hurricane Andrew, *the costliest disaster in U.S. history, caused up to $16 billion in damage and forced many insurers to cut back coverage of coastal properties.*

Pounded last year by the worst claims losses in American history, the U.S. property and casualty insurance industry probably will raise the premiums for commercial insurance on your small business before the end of this year.

But insurance experts expect the largest increases to be no more than a few percentage points for businesses whose annual insurance premiums are $20,000 or less.

For larger accounts, where there's more insurer competition for business, and where annual premiums run to hundreds of thousands of dollars, hikes will be smaller if they occur at all.

Premiums for commercial auto insurance—the kind many small businesses must buy for their delivery vans and other vehicles with load capacities of a ton or more—should hold steady or even go down.

Rates for personal passenger-car coverage continue to be subjected to market tumult—particularly in California and New Jersey, where reform pressures are growing daily. (See the box on Page 48.)

But the price trend is clear for most types of property/casualty coverage. Says Terry Welsh, vice president of sales and business development for standard commercial accounts at Aetna Casualty and Surety Co., in Hartford, Conn.: "What you're going to see is property [insurance] pricing start to creep up."

What insurers call "capacity"—their ability to write coverage—has shrunk somewhat because of insurance-company pullbacks from some markets, but it is still abundant throughout the industry. This and the normal processes of state rate regulation work against hefty premium increases; literally too many insurers are chasing too few premium dollars.

Says Jim Fricker, a zone underwriting consultant for State Farm Fire and Casualty Co. in Bloomington, Ill., and a veteran of 27 years in insurance: "For every one carrier that increases its premium, there's another marketer out there who will go in and price [its] products very competitively."

Yet with premiums for other types of insurance, like workers' compensation and group health, turning into major insurance burdens for many employers, any increases in commercial property/casualty coverage, no matter how modest, won't be welcome. Nor will premium increases in coverage for homes and autos, which are also likely in some parts of the country.

If there's a villain anywhere, it can be found in last year's headlines. Florida, Louisiana, Hawaii, and the East Coast were ravaged by nature at its most furious. Add to those natural disasters the Los Angeles riots and the flooding of Chicago's Loop, both in April, and you get some idea of how badly the U.S. property/casualty insurance industry was stung.

Insurance carriers paid more than $23 billion in claims in 1992, the most ever in a single year, reports the Property Claims Services division of the American Insurance Services Group, in Des Plaines, Ill., which compiles loss figures from information supplied to insurers by adjusters.

The total, says Sean Mooney of the Insurance Information Institute, was 10 to 12 times more than the industry typically pays in a year and more than three times the prior record of $7.6 billion, set in 1989 after Hurricane Hugo hit the East Coast and an earthquake pummeled the San Francisco Bay area.

Hard figures still are being gathered, but Hurricane Andrew alone is shaping up as history's costliest disaster, at $15 billion to $16 billion in damage.

The bad fortune seemed headed for a run into 1993. In February, the terrorist explosion at New York City's World Trade Center caused at least $510 million in damage and business losses. Less than a month later, what was billed as the "storm of the century," with barometric pressures lower than those in the blizzard of 1888, engulfed nearly half the United

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AMERICA'S ELECTRIC COMPANIES

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States and semiparalyzed commerce in a dozen major cities for three days. Losses totaled $1.62 billion.

To Rich Kasyjanski, who runs membership services for the Independent Insurance Agents of America, in Alexandria, Va., which represents 28,000 agencies, the losses spell higher prices for insurance for small businesses. Says he: "What this means for customers is that when companies pay out these losses, the losses get calculated back into the rates, and the rates go up for everybody." As of now, he says, "prices aren't rising dramatically, but they are starting to increase."

While you can probably try negotiating, insurers have been training their salespeople for months in spirited defenses as to why they can't go much lower than their original quotes.

Says Aetna's Welsh: "It used to be when a customer said, 'Your price is too high,' our answer was, 'Well, how low does it have to go? What do we have to do to write the business?' Now we talk to them about why this premium is the right premium for this account."

The biggest selling point for Aetna and the other major carriers is service. Good service, they say, costs money to provide, and customers should take that into account before switching insurers just to save a few premium dollars.

State Farm, the largest insurer of homes and cars in America, offers a comprehensive standard business policy that includes crime coverage. For its part, Aetna is trying, Welsh says, to "underwrite individually" by recognizing "individual account characteristics—some are going to pay more, some are going to pay the same, some are going to pay a little bit less."

That means that Aetna, Transamerica Insurance Co., and other major carriers are steering more of their policy-writing muscle toward commercial-auto and other market niches, and away from riskier kinds of policies where they're exposed to more losses and earn less money.

For its part, Aetna and some other insurers intend to write fewer policies for contractors because of insurance losses in that industry, and that could mean higher premiums for some policyholders. But Aetna just issued coverage for the Basketball Hall of Fame's memorabilia, as well as property insurance for the Hall's quarters, built in 1985 in the game's birthplace in Springfield, Mass.

In addition to targeting other museums, Aetna is going after more business in the field of wholesale food and beverages—soft-drink bottlers, for instance—where risks are lower and potential profits higher.

Specialization is what's happening, a trend that *Professional Agent*, an insurance trade magazine, calls "personalizing of commercial lines." Insurers are offering policies tailored to almost everything from bed-and-breakfast operations to funeral parlors; Harleysville Insurance Cos. has a program for funeral directors that pays up to $10,000 for jewelry or furs stolen from a corpse any time between death and the burial. The Chubb Group of Cos. writes coverage for more than 300 of the top 500 law firms in the U.S.

Even with such fine-tuning, it will be a while before the industry's wounds heal. The 1992 disasters hammered the industry's net income after taxes down to $6 billion, less than half of 1991's $14 billion, say two trade groups—the Insurance Services Office, in New York, and the National Association of Independent Insurers, in Des Plaines. Significantly, State Farm suffered its first loss since 1969 last year: $1.2 billion, chiefly because of $3.6 billion in claims from Hurricane Andrew.

Although the industry had enough money to meet its obligations, deep-running adverse forces are at work on several fronts:

■ Carriers, among them ITT Hartford Insurance Group and Crum and Forster Insurance Cos., are scrambling to increase their loss reserves by more than $1 billion. Other companies are expected to follow suit, says Jack Snyder, a vice president of A. M. Best, an insurance-company rater in Oldwick, N.J.

In all, the Insurance Services Office estimates, reserves against losses are deficient by $30 billion to $50 billion. Although loss-reserve boosting doesn't

Stripped and wet: *A Florida building's insides are revealed after Hurricane Andrew; above. Flooding follows a storm last year in New York City.*

automatically mean premium increases, it is strongly suggestive of them.

■ Primary insurers pay reinsurers to assume some of their risks, so that the risks are spread out and can't hit any one insurer too hard. But as 1992's claims poured in, this reinsurance market tightened up. Many carrier-reinsurer agreements, called "treaties," are coming up for renegotiation, and the reinsurers are expected to want more money. Insurers will have to pay more for less coverage.

What once bought $250 million worth of reinsurance coverage, for example, now buys only $150 million worth. Says IIAA's Kasyjanski: "The reinsurance treaties, as they have been renewed, are reflecting the fact that the reinsurers are going to be paying serious losses on those catastrophes."

Demand for reinsurance is so strong and premiums are so high that some insurers are selling their reinsurance operations to make big money fast: Prudential of America Group, the country's largest insurer, put its reinsurance unit on the market in March for $1.2 billion.

Major carriers like State Farm, Travelers Group, and Prudential are moving to limit coverage, or stop offering it altogether, in hurricane-prone coastal areas. Allstate Insurance plans to allow coverage for 300,000 Florida homeowners and other policyholders to lapse. Insurers, says Howard Dempster, Cigna Property and Casualty Co.'s chief financial officer, are trying to "downsize their coastal accumulations."

If small businesses in those areas can get coverage at all, they'll almost certainly have to pay more for it, says Kasyjanski. He predicts that "business owners will be realistic about it and accept higher deductibles for certain catastrophic events." Says Fricker: "They'll get the insurance, but they'll have to shop for it."

Meanwhile, the most battered states are moving to supplement their insurance "guaranty funds," which are now effectively bankrupt. Florida, for one, is using a joint underwriting association to make homeowners insurance easier to get and lower in price.

■ Costs for industry legal defenses have more than tripled since the mid-1950s, up from just 12 cents for each dollar of indemnification to the current 39 cents. A pending Supreme Court decision could make matters worse. At issue in the case, brought in 1988 by 19 state attorneys general, is the industry's exemption in some cases from antitrust law under the federal McCarran-Ferguson Act, which effectively allows sharing of information among companies for rate-making purposes.

An adverse court ruling, experts say, could cost insurers billions of dollars and limit insurance choices of small businesses. Says Tom O'Day, an associate vice president for the Schaumburg, Ill.-based Alliance of American Insurers: "This would touch every business in America."

What all this points toward for the small-business buyer of insurance, say longtime industry participants, is an almost certain end to the "soft" cycle of insurance premiums, which has bedeviled the industry—and blessed insurance customers—since 1987.

PHOTO: ©TIM RYAN—GAMMA LIAISON

PHOTO: ©TOM SOBOLIK—BLACK STAR

All this and more: *Storm damage such as this in an office in Hawaii adds to insurance industry burdens, says Fred Marcon of the Insurance Services Office.*

In a "soft" insurance market, policy sales keep rising but the amount of premium money generated by those new policies rises anemically, if at all, as competition keeps prices down. In 1992, insurance salespeople placed enough coverage to generate $228.3 billion in premiums, but that was only 2.3 percent above 1991's $223.2 billion.

Investors began sensing the inevitability of higher premiums in late 1992, as one catastrophe followed another, and they drove up stock prices of companies in the property/casualty business in anticipation of higher earnings.

Although investor interest later slackened, by late spring property/casualty insurance stocks still were selling near their 52-week highs. In April, Transamerica sold its property and casualty business for more than $1 billion through a public offering that brought $22.63 a share, higher than the $19 to $21 that investors had expected.

In addition to such transactions, the industry has an ongoing interest in the stock market. Its investments in stocks and bonds have enabled it to weather weak prices, casualty and underwriting losses, and adversity of other kinds. But doing that isn't as easy as it once was. Fred Marcon, president and CEO of the Insurance Services Office, describes the industry's 1992 investment return of 1 percent as "anemic"—the third consecutive year of poor growth.

As long-term interest rates plummeted to 20- and even 25-year lows in late 1992 and early 1993, and bond prices rose accordingly, insurers sold off huge chunks

Smart Shopping

Here are points to keep in mind concerning your business insurance:

■ Don't assume you're covered. Ask your agent what your policy includes and excludes. For example, you may have business-interruption insurance for some losses, but you may not have "extra-expense" insurance to pay for moving computers to temporary locations.

■ Crime coverage protects against theft of goods and damage by thieves, but it might not necessarily cover medical expenses of workers injured in a robbery. Ask your agent about such coverage.

■ If you don't like what your carrier is offering, ask your agent to shop around. Your mission is not to get the cheapest policy but to get the coverage you need for the fairest price.

■ If you're hit with a premium increase, haggle with your agent. Even though some companies have left some markets, competition abounds and works for you. But don't switch carriers capriciously or for savings that might be fleeting.

■ Especially after 1992's storms, which showed that many dwellings were not built to local building codes, think about adding what's called "business ordinance or law coverage." This will pay if local codes change and make what was once acceptable unacceptable—forcing, say, the replacement of a shake roof with a more expensive one of asphalt shingles.

of their bond portfolios and realized one-time profits of around $9 billion. Many of them will thus have fewer assets to draw on to make up for mediocre premium growth or to defend themselves against more disasters like last year's.

Joel Wood, vice president of the National Association of Casualty and Surety Agents, in Washington, D.C., says, "This is a frightening time for the insurance industry." Like others in the industry, he doubts it can respond effectively through higher premiums. "People have been saying the market's going to harden for five consecutive years now," he says. "But a lot of that is wishful thinking."

Bob Nicosia, who owns the Pilgrim Insurance Agency in Lyndhurst, N.J., and sells the policies of a dozen major companies, says likewise that premiums are holding steady in what he calls a "very strange phenomenon. Everything tells me we should have seen a hardening of prices a while ago. But I haven't even heard talk among companies about a serious hardening of prices."

Even weather patterns may continue to work against the industry; some experts interpret them as more frequently destructive and threatening. To counter that, the industry is supporting an expansion of current earthquake coverage to include other catastrophes, like hurricanes and tornadoes; federally backed reinsurance resources would kick in when damage passed a certain level.

Kasyjanski believes that some "partnership" may get "worked out where the federal government comes in on certain areas, works with the state insurance departments and other areas, and we continue to have a viable insurance mechanism that protects everybody."

Beyond that, the specter of more federal regulation of insurance, which began cropping up in the past two or three years when a few major insurers failed, has been raised anew by 1992's losses and the states' vitiated ability to cope with those losses.

Says Kasyjanski: "Congress and the insurance industry are both looking a lot closer at how they protect themselves and the consumer."

Industry lobbyists expect more action in that area, yet they fear what they see as dire consequences to the small commercial buyer of insurance if Washington goes too far and forces stringent regulation upon the industry. This, they contend, could do more damage than all the Andrews, Inikis, and World Trade Center disasters put together. NB

PHOTO: [illegible]

New Jersey agent *Bob Nicosia: From what he sees, no hardening of premium prices.*

To order reprints of this article, see Page 72.

Meanwhile, Out On The Highway

Perhaps no other area of property/casualty insurance has grabbed public attention more than automobile coverage. And with good reason. In her book *Hit Me—I Need The Money* (ICF Press), Marjorie Berte reports some statistics: In a typical day, 90,000 accidents injure 15,000 people and kill 130. About 4,000 cars are stolen. Daily cost for all this: $200 million. Of each $100 of that amount, $77 goes to settle claims, and $10 goes to pay medical bills.

The tumult in auto insurance has led to efforts like those in New Jersey and California to effect major change. New Jersey Gov. James Florio's 1990 plan to reform auto insurance has not achieved the promised results for vehicle owners, and California's auto-insurance system has been in chaos since voters narrowly approved Proposition 103 almost five years ago.

The California approach was supposed to roll back auto-insurance rates to what they were in the mid-1980s and bring corresponding refunds to policyholders. While it has done some of that, it also has caused delay, confusion, and frequent meetings of insurers and regulators in court.

Says Peter Lewis, CEO of Cleveland-based Progressive Insurance, a big auto insurer: "Proposition 103 was a law that was passed as a consequence of consumers' anger with and distrust of the auto-insurance process. But they passed a law that makes no sense and is not administrable."

When California's insurance commissioner, John Garamendi, attempted to decree that a fair rate of return for insurers was 10 percent, it was overturned in court. He now favors an elaborate no-fault system of auto insurance financed by a gasoline tax, a "pay-at-the-pump" scheme developed by financial writer Andrew Tobias in a new book, *Auto Insurance Alert!* (Simon and Schuster). The idea has gone nowhere in the California legislature, and it probably won't; it has been referred to a committee controlled by trial lawyers, who dislike the idea.

PHOTO: [illegible]—BLACK STAR

Progressive's *Peter Lewis: Dumping a "dumb" idea.*

Progressive Insurance's Lewis calls pay-at-the-pump "the best idea I have ever seen to resolve the situation, but it doesn't go far enough in reorganizing the auto-insurance and auto-accident compensation system." His prescription: Abandon "dumb" state-mandated auto insurance and adopt a voluntary plan that would eliminate any government role and would bar auto-accident lawsuits.

Tobias now is thinking of putting pay-at-the-pump before voters. It would take signatures of 680,000 registered voters to put the issue on the state ballot.

PHOTO: [illegible]

Pay-at-the-pump's *Andrew Tobias: Let voters decide.*

But insurance agents and insurers do not think that pay-at-the-pump would work to the benefit of motorists as its supporters claim. They note that it would turn insurance into a regular commodity available to all without the traditional tests of experience and risk. Although some insurance companies favor a no-fault approach like the one incorporated into the pay-at-the-pump approach, they say the price would be too high. Says Jim Stahly, spokesman for State Farm Fire and Casualty Co.: "The savings in no-fault would be traded for limited choices by consumers in selecting an agent or an insurer."

MANAGING

The Power Of Empowerment

Quality-minded businesses are unleashing their employees—and everyone is benefiting.

By Howard Rothman

Back in 1989, a member of the in-house marketing department at Birkenstock Footprint Sandals approached her manager. She knew that the Novato, Calif., distributor of cork-heeled sandals already embraced a wide variety of environmentally conscientious practices. But she believed that the company could do more.

The manager listened, then encouraged the employee to form what eventually became a 12-member "eco task force" with across-the-board departmental representation. The task force's job was to study and draft suggestions on how the company and its dealers—and even other businesses—could improve recycling efforts and decrease the amount of energy used in day-to-day operations.

The task force soon proved so popular that Birkenstock allowed members to spend one hour per week of company time on related projects. The group developed an in-house environmental library, compiled a guide to nontoxic resources, produced a newsletter on relevant internal activities, and organized monthly meetings with neighboring businesses to share ideas on conservation-minded products and concepts.

PHOTO: GLINDA SUE SCOTT

Birkenstock *empowers employees like John Brandolino, Nathan Kiger (seated), Julia Nichols.*

In turn, Birkenstock furthered goals it supported, offered employees an opportunity to participate in a cause they favored, and demonstrated real interest in those employees and their concerns. Just as important, the team helped the company cut energy costs while building a more motivated and loyal work force, which remains notable for its high productivity and low turnover.

"We recognize that people have a need to contribute and to feel enthusiastic about what they are doing. We try to create an atmosphere where this happens," says the company's sole vice president, Mary Jones, whose responsibilities include human resources. "I'm really here to help out."

Jones has benefited for more than 20 years from the people-oriented management philosophy of the company's founder and president, Margot Fraser; Jones was Fraser's first employee. Initially a part-time bookkeeper, Jones found her responsibilities growing with Birkenstock, as the company expanded to 143 workers and $38 million in annual sales in 1992.

Birkenstock's commitment to its employees has never wavered, Jones emphasizes, and the company wants to keep expanding that commitment. When proponents of contemporary business strategies like Total Quality Management (TQM) began preaching the benefits of formal "empowerment" programs—which seemed to be a natural extension of the company's existing people-oriented style—Birkenstock took heed.

Last January, Birkenstock hired a professional trainer to form employee teams and teach them how to operate, and in March it created a training advisory council to pinpoint specific areas in which improvement was still needed. Employees in sales, credit, production, warehousing, and other areas now work in teams, within and across departments.

Empowerment, which places responsibility for spotting and solving problems squarely on employees, has become increasingly popular among companies focused on quality improvement.

"Empowerment is one step beyond involvement," explains William C. Byham, co-author of *Zapp! The Lightning of Empowerment* (Harmony Books) and co-founder of Development Dimensions International, a consulting firm based in Bridgeville, Pa. Involvement, sometimes called participatory management, encourages supervisors to solicit comments from their workers and then act on those ideas considered viable; according to Byham, empowerment adds an imperative, as well as the element of shared responsibility.

"Empowerment requires leaders to not just ask for suggestions, but to let employees make the decisions and then implement the actions necessary for change," he says.

Firms like Birkenstock, which have always encouraged communication between employees and managers, are natural candidates to adopt the more advanced principles of empowerment. But even those without cultures deeply rooted in such attitudes can find the practice effective.

"We're in New England, and we're 100 years old," says William C. Holbrook, vice president of operations for the Diesel Systems Division of Stanadyne Automotive Corp., in Windsor, Conn. "But we're acknowledging the fact that employees can think and act and solve problems."

A little less than half of Stanadyne's 2,400 employees are at Windsor, with 400 of them directly involved in making automobile parts. Four years ago, these production employees became the first in the company to be divided into work teams, with four to 30 members each. Each team was assigned to a specific component, like a drive shaft, and was given specific production goals, the responsibility to divide work within the team to ensure

Howard Rothman, a Denver-based writer, is co-author of Companies with a Conscience: Intimate Portraits of Twelve Firms That Make a Difference *(Birch Lane Press/Carol Publishing).*

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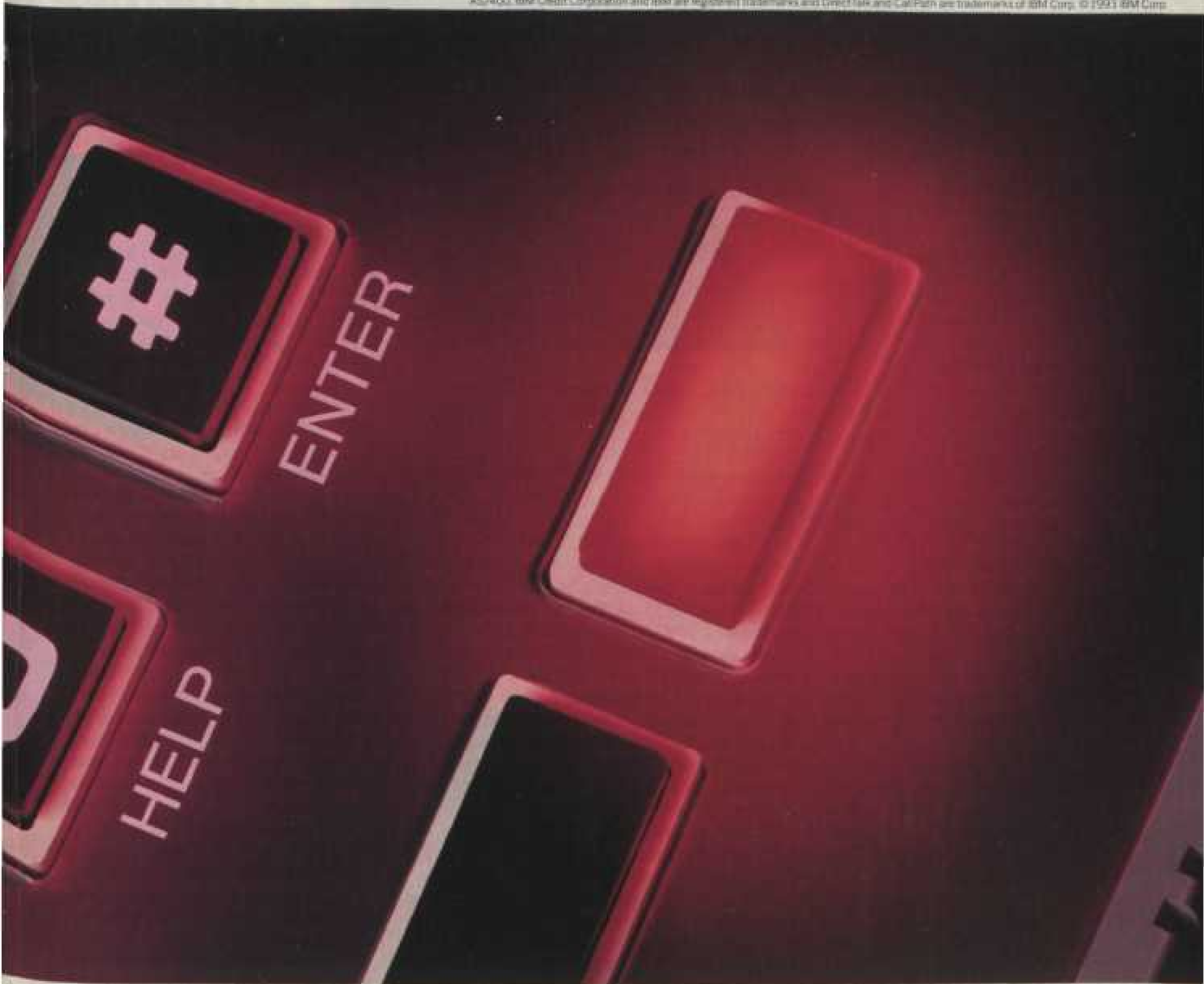

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that those goals were met, and the duty to control costs.

Stanadyne turned to empowerment after being introduced to the idea by fellow members of the Association of Manufacturing Excellence. This 10-year-old networking and education trade group, headquartered in Wheeling, Ill., has 5,500 members from all types of manufacturing companies and was an early proponent of TQM.

Empowerment is easiest to implement in small to midsize firms, like Stanadyne, that aren't locked into a rigid corporate culture, says Holbrook, the association's current president. Fortunately, he adds, it's also feasible for even the most budget-conscious of companies, because "it's not a resource-intensive thing." About 10 to 15 percent of all American companies now have empowerment teams in place, Holbrook estimates.

PHOTO: BARRY STAVER

At Celestial Seasonings, *Julie Lamm, a quality support technician, checks a box of tea with operator Jack Dukachek.*

Much of the recent activity is taking place at firms like Celestial Seasonings, the $50 million herbal-tea company in Boulder, Colo., that has long been known for its strong employee orientation. It was founded in 1969 on a set of specific "Corporate Beliefs," including one outlining a long-term commitment "to the development of our good people."

"Empowerment is the heart of this company; it is who we are," says Kathryn Besemer, Celestial's director of human resources, strategic planning, and TQM. For example, she notes, the company has long held semiannual meetings for all workers, and it continues that practice today, even with employees now numbering 225. At these sessions, the company offers full details on current operations, including complete financial information and updated profit targets, and it suggests ways the employees can help their employer make the two match up.

But even at Celestial, she adds, newer empowerment efforts are now under way, to supplement and enhance existing programs. One of the most promising, called "Jump Start," is designed to help Celestial's 120 operations employees acquire precise problem-solving skills. Currently, three teams with about a dozen members each are working on specific problems (such as reducing milling waste by 20 percent) while being taught how to analyze the situations they may face and develop appropriate solutions.

Byham, the author and consultant, agrees that education is crucial to the ultimate success of any such program. "Don't expect people to take on these new skills without training them," he says.

While companies like Birkenstock, Stanadyne, and Celestial Seasonings turn to empowerment with full support from the very top, other corporate leaders are more reluctant to give up any more power than they absolutely have to. For them, empowerment represents a threat.

Nonsense, say those involved. And Byham is quick to point out that empowerment concepts can be grafted onto an organization at whatever level the organization's leaders wish.

Flexibility is perhaps the most important trait to bring to an empowerment program. Nothing will kill enthusiasm for any quality-management idea faster than presenting it as ironclad to employees who suspect it is unworkable or dumb.

Valuing the opinion of every worker, after all, is what empowerment is about. "We realize that it is up to everyone in our company to help us reach our goals," says Birkenstock's Mary Jones. "So we naturally want them to be with us on this from the very beginning." NB

To order reprints of this article, see Page 72.

Getting Started

A successful employee-empowerment program can be developed in a variety of ways, all of which can be combined with the others as a manager sees fit. Here are three basic routes:

Books and videos. While rarely used as the sole means to the desired end, these general tools help explain the process and get an empowerment program under way. Books to look for include *Zapp! The Lightning of Empowerment*, by William C. Byham with Jeff Cox (Harmony Books); *All Teams Are Not Created Equal*, by Lyman D. Ketchum and Eric Trist (Sage Publications); *Power and Empowerment*, by Peter Bachrach and Aryeh Botwinick (Temple University Press); *Participative Management*, by Lorne C. Plunkett and Robert Fournier (John Wiley); and *Beyond Participative Management*, by G. Ronald Gilbert and Ardel E. Nelson (Quorum Books).

The Association of Manufacturing Excellence offers a videotape on empowerment called "Passing the Baton"; the cost is $400 to members and $500 to nonmembers. Call (919) 851-2202 to order.

Benchmarking. Like other pieces in the overall TQM puzzle, many of the most successful empowerment programs are implemented by companies that carefully benchmark others that already use the practice—that is, representatives of the firm study the way it is being applied elsewhere before adopting the practice themselves.

Companies with existing empowerment teams are usually open to such examination by others, providing they receive some type of information or assistance in return.

It is important to remember, however, that what works consistently well in one company's culture may not be right for another company. Specific products or services, actual demands on the work force, and even the age of the companies involved are some of the variables that must be taken into account.

Consultants. Outside experts on Total Quality Management can often prove extremely helpful to companies that wish to tailor an empowerment program to their specific needs. It's not always obvious how teams should be organized. Employees who already work on one specific project—such as assembling the wheels on a wheelchair—form a natural team, for example, but where does a telephone operator fit in? Or a security guard? Study the literature, and use the benchmarking process to identify proven consultants who have expertise in your field.

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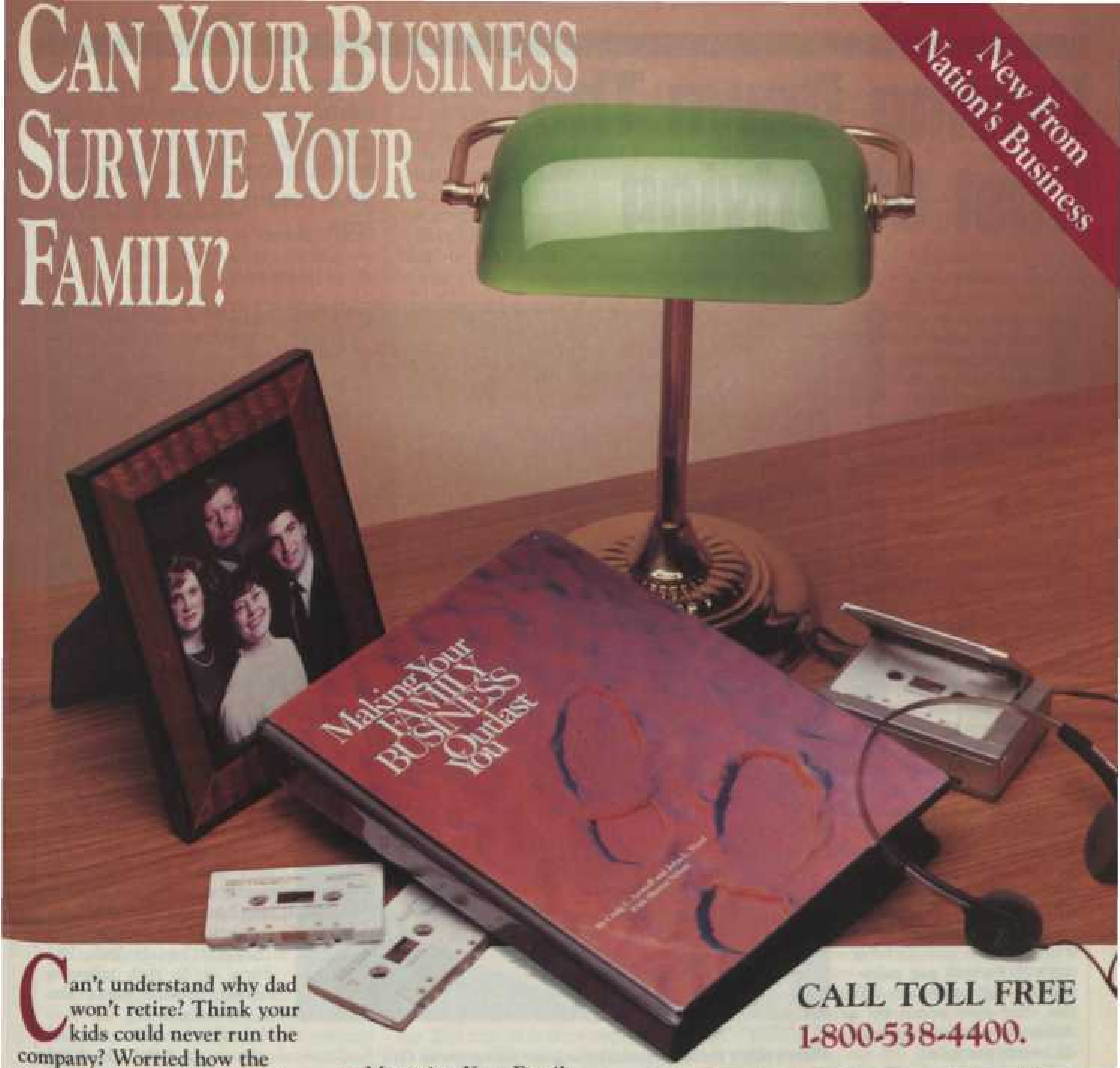

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TRANSPORTATION

Driving Down The Cost Of Driving

When fleet owners buy smaller cars, use less gas, and bear down on maintenance, the savings go straight to the bottom line.

By Julie Candler

Transportation costs can often be a fertile area for companies seeking ways to reduce expenditures.

That opportunity arises from the fact that transportation is second only to wages as a cost to companies that use cars and trucks to sell to and serve their customers, according to the trade publication *Automotive News*. Deliveries, sales, and service calls are leading activities of that type of company.

There are many possible routes to cost reduction for such firms. Experts recommend these steps as being among the most effective:

PHOTO: ©CHRIS COVATTA

There's plenty of room *in smaller wagons for company reps' food-store displays, says Jerry Nammack, fleet manager of Kelley-Clarke.*

Use Smaller Vehicles

The American Automobile Association reports that the cost of owning and operating one manufacturer's 1993 subcompact, four-cylinder, four-door hatchback for 15,000 miles is 33.5 cents per mile. By comparison, a midsize, six-cylinder, four-door sedan from the same manufacturer costs 39.2 cents per mile—and an eight-cylinder, full-size, four-door sedan by a different manufacturer costs 43.3 cents per mile.

Total annual costs: $5,024 for the subcompact vehicle, $5,881 for the midsize sedan, and $6,488 for the full-size sedan.

Kelley-Clarke, a food brokerage in Diamond Bar, Calif., uses compact station wagons. Fleet Manager Jerry Nammack says the company's representatives have found that their 40 Chevrolet Cavalier station wagons with four-cylinder engines have plenty of room for carrying displays to grocery stores. At the same time, it costs less to buy the wagons than to buy minivans, and, he says, "we've had good service on them." (The cargo volume in a Cavalier station wagon is 34.4 cubic feet.)

Downsizing has saved National Convenience Stores, a retail chain based in Houston, $200 each on 10 new vans. The company operates 100 full-size vans used by maintenance crews servicing 725 stores, but now Fleet and Relocation Coordinator Nancy Reingold says she is starting to lease vans with smaller engines.

Reingold plans to replace gradually the 90 remaining 3/4-ton Chevrolet vans, which have 5.7-liter V-8 engines. The 10 replacements bought so far have been half-ton Chevy vans with 4.3-liter V-6 engines. Along with saving $200 per van on the original price, Reingold anticipates lower fuel costs for the 35,000 miles per year that each of the vans travels.

Reduce Fuel Consumption

Fuel savings can be significant. According to the most recent analysis by Runzheimer International, a Rochester, Wis., firm that tracks vehicle costs, unleaded regular gasoline averaged $1.14 per gallon in 1992. The fuel bill for the typical 1992 intermediate-size vehicle was 16.5 percent of the car's total annual cost—second only to depreciation and interest, which accounted for 55.7 percent.

Fleet managers can save gas not just by buying smaller vehicles but by making changes in schedules and routes that minimize the risk that company vehicles will get caught in traffic jams.

When larger vehicles are involved, fuel costs loom larger, too—as do the potential savings. Fuel is the second-highest expense for a fleet hauling freight by the truckload, according to the trucking publication *Commercial Carrier Journal*. A heavy-duty truck traveling 55 miles per hour instead of 65 mph will realize 13 to 15 percent savings in fuel alone, says James F. Booth Jr., owner/operator of a Class 8 long-haul truck. Booth, who contracts with Goodway Transport Inc., in York, Pa., drives at 55 mph unless a delivery deadline forces him to travel faster.

Another way to cut fuel costs is to switch to diesel engines, which are more fuel-stingy. But diesel won't save you money if a truck travels 30,000 miles or less per year, says Joseph Aluise, owner of Metro Truck Leasing in Beltsville, Md. Aluise leases both gasoline- and diesel-powered trucks but says: "I'm trying to explain to people that city-delivery straight trucks [those with a bed attached, as opposed to tractors that pull trailers] from 14 to 22 feet long should not be diesel. If a truck runs between 20,000 and 30,000 miles per year, which is common in city driving, the high initial cost of the equipment will offset the fuel savings."

A diesel-powered truck has an average purchase price $7,500 higher than a gas-powered truck's, Aluise says. With no money down and finance charges of 9 percent over a 48-month lease, that extra $7,500 would cost $186 per month. An owner saving $52 a month by buying diesel fuel,

Aluise says "is still out of pocket $134 per month." Buying diesel makes sense only when the annual mileage—and thus the saving on fuel—rises high enough to outweigh the extra cost of a diesel truck.

Don't Overlook Maintenance

Aluise's firm finds that overall repair costs for diesel engines are higher. He cites an example of a diesel owned by his firm: At 150,000 miles, its repair costs had totaled $7,108.92, or 4.71 cents per mile. Repair costs on a gas engine of comparable mileage were $3,320.66, or 2.07 cents per mile.

Typically, his company finds repair costs for gas engines run from 2 to 2.5 cents per mile, whereas diesels average between 5 and 6 cents per mile.

It's possible, though, for the owners of well-maintained diesel engines on long-haul Class 8 trucks to save money by achieving phenomenal mileage.

Detroit Diesel bragged at the Mid-America Truck Show in Louisville, Ky., in March about a 1987 Series 60 engine that recently racked up its millionth mile. According to David Berrigan, senior vice president of Detroit Diesel, the company asked Roadway Express of Akron, Ohio, to stop running the engine so the manufacturer could tear it down and analyze its condition. But first, Detroit Diesel did a power check. It showed that the 12.7-liter, 400-horsepower engine still produced 380 horsepower.

One owner reported last fall to Mack Trucks Inc., in Allentown, Pa., that he had accumulated 1.45 million miles on his 1986 Mack MH Ultra-Liner truck. Merle Barker, president of Barker Leasing Corp., of Galax, Va., said the truck's Mack E6 300-horsepower engine still had the original cylinder kit and crankshaft. He installed new rod and main bearings at 560,000 and 1.17 million miles. Outside of that, Barker said, his only maintenance was routine oil changes.

Those routine oil changes help engines rack up trouble-free, economical miles, and good fleet managers are well aware of the importance of such vehicle service.

The only diesel engine manufacturer to produce its own oil, Cummins Engine Co., in Columbus, Ind., has just introduced Premium Blue 2000 diesel engine oil for its NT-855, N14 and L10 engines and their equivalents from other manufacturers. The new oil is more expensive (about $5.50 per gallon vs. about $3 for most oils). But Cummins' general manager for service products, Lloyd Glick, says that tests of the product under actual operating conditions indicate that it can save $300 to $700 over the life of an engine, by prolonging the engine's life, extending drain intervals by as much as 50 percent, and reducing oil consumption.

Concerning gasoline engines, Nancy Reingold of National Convenience Stores recommends a chassis lubrication and oil change every 3,500 miles. Most manufacturers prescribe a change every 7,500 miles, except in "severe" driving conditions. She says that "the heat and humidity in Texas, plus all the stop-and-go driving in heavy traffic," add up to "severe driving conditions that make more frequent oil changes advisable." For many other firms, too, it makes sense to interpret the word "severe" broadly.

Reingold uses a maintenance management program for those vehicles that the firm leases, rather than owns. She sees that each driver gets a reminder card when it's time for an oil change. The drivers' managers get a follow-up report from the maintenance program by way of Reingold saying what service has been performed and where.

PHOTO: ©PAUL S. HOWELL—GAMMA LIAISON

Stop-and-go driving *is tough on engines, says Nancy Reingold, fleet coordinator for National Convenience Stores; she recommends frequent oil changes.*

Under National Convenience Stores' contract with Enterprise Leasing Co., of St. Louis, drivers can charge the service at various franchised service facilities, such as a JiffyLube or a Goodyear store. The bills go to Enterprise, which pays them all, so that Reingold has to write only one check a month for maintenance.

Companies can often obtain discounts on repairs and maintenance for vehicles they acquire through major leasing companies. At GE Capital Fleet Services, in Eden Prairie, Minn., for example, President Teresa LeGrand points out that "we can save our customers 10 percent to 15 percent on maintenance and repairs, even windshield replacements and tires. In North America, we are managing more than 500,000 vehicles. In our agreements with a network of vendors, we are leveraging the impact of our volume to get discounts for our customers."

In smaller ways, too, fleet owners can save on maintenance. Jerry Nammack of Kelley-Clarke tries to save on tires and brakes by coaching drivers who abuse them. "You can tell the good drivers by how quickly the tires and brakes wear out," he says. "The bad drivers probably are hard on the brakes by riding them [resting a foot on them constantly]. They take tread off their tires by cornering too fast, floorboarding the accelerator at the lights, and making panic stops."

For medium and heavy-duty trucks, maintaining correct wheel alignment can add 20 percent to the life of a radial tire, according to the Automotive Division of Rockwell International Corp., in Troy, Mich. Rockwell announced that conclusion last fall after a multiyear field test of the relationship of wheel alignment to radial-tire wear. Rockwell changed the settings on its entire line of front nondrive steer axles, to equalize tire wear.

In short, the small-business owner or fleet manager who wants to cut costs will find lots of well-sharpened blades available. All you have to do is pick them up. NB

LEGISLATION

A Bill To Outlaw Replacing Strikers

Congress may bar employers from permanently replacing employees who strike for reasons such as wages and benefits.

By David Warner

William A. Stone was on the shop floor of his business, Louisville Plate Glass Co., along with three salesmen and two supervisors, cutting glass to fill customers' orders. Outside the Louisville, Ky., plant, 15 of his 25 employees—members of Local 1529 of the Glass Glazers and Painters International Union—were on strike for higher wages and benefits. The union was seeking an increase that would double Stone's labor costs over three years, he says.

The strike occurred in June 1977, in the midst of double-digit inflation and high interest rates. Stone and the five management employees continued to run the company's normally 15-man shop floor operation for almost a month, hoping the striking workers would back off from their position. "But they hardly gave," Stone says.

After six months on the picket line, the union was still seeking an 80 percent increase in wages and benefits.

The company started losing orders—it lost 50 percent of its volume in the first month of the strike. "It became apparent that either we replaced our [striking] employees or we would be out of business," says Stone.

So the firm hired seven new employees as permanent replacements for strikers. Eventually, eight of the strikers crossed the picket line to return to work. Because only seven of the 15 workers who went on strike were replaced, the eight who returned were given back their jobs.

Stone's company survived that labor unrest, primarily because he was able to replace the strikers. And the company has since expanded to three plants—two were added in Georgia—and 100 employees.

Congress, however, is considering a change in the law that enabled Stone's company to survive. Legislation pending in the House and Senate would bar employers from permanently replacing employees who walk off the job for economic reasons, such as wages and benefits.

Employers have been able to hire permanent replacements for economic strikers since 1935, when Congress passed the Wagner Act—also known as the National Labor Relations Act—which governs union organizing and collective bargaining.

The U.S. Supreme Court affirmed that ability as a "right" in a 1938 case, *NLRB [National Labor Relations Board] vs. Mackay Radio & Telegraph Co.* The high court also ruled in that case that permanent replacements were prohibited if the employer had committed an unfair labor practice, such as provoking a strike to "bust" the union.

The legislation pending in Congress, the Workplace Fairness Act, or striker-replacement bill—it's one of the top priorities of organized labor—would reverse the Supreme Court ruling dealing with economic strikes.

The Clinton administration supports the legislation.

The AFL-CIO and Labor Secretary Robert Reich maintain the legislation is needed to level the playing field between management and labor during contract negotiations. And Reich states that banning permanent replacements is a step toward ending what he and the unions assert has been 12 years of growing distrust between labor and management.

At recent House and Senate hearings on the striker-replacement bill, the labor secretary told lawmakers that "employees suffer as a result of strikes; they are putting their jobs and their livelihoods on the line."

Louisville Plate Glass *survived a 1977 strike by being able to permanently replace strikers, says the company's president and CEO, William A. Stone, shown with employee Ken Golde.*

PHOTO: BILL LUSTER

Many labor-law experts, however, believe barring permanent replacements would have grave effects on the collective-bargaining process.

Daniel Yeager, a labor lawyer with the Labor Policy Association, a business-supported Washington, D.C., group focusing on human-resources issues, says the ability of the union to strike and the capability of management to hire permanent replacements are weapons whose "mere presence has the effect of bringing the parties to agreement at the bargaining table." If management lost its weapon, "unions would be able to call virtually risk-free strikes over any issue," says Yeager.

Republican Sens. Nancy Landon Kassebaum of Kansas and Orrin Hatch of Utah are expected to lead the opposition to the bill when it comes up for debate in the Senate. Kassebaum says that denying employers the ability to continue operations during a strike would foster more labor-management strife.

The legislation "will turn the clock back to the era of bitter, prolonged, and divi-

sive strikes, where everyone loses—not only the workers but the economy as well," she says. Kassebaum is the ranking minority member of the Senate Labor and Human Resources Committee, the panel with jurisdiction over the bill in the Senate.

Management would have to accede to the union's demands or try to weather a strike, says John Irving, a partner in the Washington, D.C., law firm of Kirkland & Ellis and general counsel to the National Labor Relations Board from 1975-1979. Irving also believes that in the absence of any risk that their members would be replaced, unions would be likely to strike more often and for longer periods.

Some industries can afford to take a strike for a while, says Irving. "But there are many, many others that ... simply can't afford to do that; they must continue to operate, or their competitors will be all too happy to permanently take their customers."

Reich and the unions argue that employers have other means, such as hiring temporary replacements, to continue operations during a strike.

While employers in some businesses—mostly those requiring low-skilled workers—can use temporary replacements as long as there's no violence by strikers on the picket line, says Irving, many others cannot. "If they can't," he says, "and they need to hire permanent replacements, ... they should have that right. Otherwise, the union just sits out there [on the picket line], and employees dictate when they're going to come back.

"Employers permanently replace their workers only as a last resort. No employer in his right mind wants to get rid of his skilled workers and have to train a bunch of 'green' people."

In addition to the costs of training temporary replacements, under state and federal laws employers could owe these workers unemployment and health benefits once a strike is resolved and they are let go.

Health care is one industry in which hiring temporaries often is not a viable option and where the ability to replace striking workers can literally be a matter of life or death.

For the 110 residents of the Jewish Home for the Aged, in Cincinnati, that certainly was the case earlier this year when 80 of the nursing home's 95 employees, members of District 1199 of the Service Employees International Union, went on strike for, among other things, higher wages.

The nonprofit health-care facility was able to use temporary replacements for the first three weeks of the strike. But because it had to hire some high-priced temporary-agency workers and because of certain state-mandated staffing and training requirements, permanent replacements were later hired.

"The union recognizes how vulnerable health-care institutions are," says Alan Lips, a partner with Taft, Stettinius & Hollister, a Cincinnati law firm representing the Jewish Home. "If [union members] can hold the residents hostage to the boycott of their labor ... and they can prevent the hiring of replacement labor, then the employer has to capitulate quickly [to union demands] because he's got an overriding, moral imperative to take care of the residents."

Among senators *opposed to the measure to bar replacing strikers is Kansas Republican Nancy Landon Kassebaum.*

Stone, who is president and CEO of Louisville Plate Glass, points out that replacement workers take physical and emotional risks when they agree to work for a company being struck. "They're going to be insulted and called 'scabs'; they're going to be threatened and intimidated. You couldn't get most people to cross a picket line in any kind of intense negotiation situation unless the carrot of permanent replacement were available."

Under current law, even "permanent" replacements aren't necessarily permanent. Striking unions often file charges of unfair labor practices with the NLRB against a company that hires such replacements. If the labor board agrees with the charges, the employer would be prohibited from hiring permanent replacements.

Strike settlement agreements often provide for reinstatement of all strikers at the expense of the replacement workers' jobs.

A March 1992 survey by the Bureau of National Affairs, a private research and publishing company in Washington, D.C., found that 75 percent of replaced strikers return to their jobs after a strike.

Under current law, striking workers cannot be fired; they can return to their jobs even during a strike; and, at the end of a strike, they must be given first priority when job vacancies occur.

The pending striker-replacement measure would require employers to favor returning strikers over nonstrikers—both replacements and those who did not strike—for jobs and to ensure that the strikers' seniority remained unaffected by their absence.

The bill also would allow striking workers to take a job with another company during a strike. In fact, the legislation guarantees an absolute right to strike without fear of being permanently replaced even when a "no-strike" contract exists.

The legislation would also prohibit even a nonunion firm from hiring permanent replacements if a majority of workers in a potential bargaining unit within the business signed cards supporting a union.

The House bill would further require the union seeking recognition to file a petition with the NLRB 30 days before calling a strike.

Nonunion and union small companies that supply goods and services to companies could also suffer financially if their customers are unable to continue operations during a strike, say several business organizations fighting the striker-replacement bill.

"The little guy can really be hurt by having his customer shut down," says Irving.

Labor unions are looking to the striker-replacement bill not only as a way to help secure higher wages and benefits but also as an organizing tool, says Irving. If a union can guarantee workers' jobs even when they strike for unreasonably high wages and benefits, chances are good the union's organizing efforts will be successful, he says.

And the unions are eager to achieve such success. Union membership has been declining steadily since it reached its peak of 35.5 percent of the work force in 1945. Today, organized workers make up just 11.5 percent of the nation's work force.

Kassebaum sums up the stakes involved in the striker bill this way: "At a time when we should be enhancing our competitiveness, we ought to be looking for ways not to destroy but to encourage labor and management cooperation."

Says Stone of the striker-replacement measure: "Had there not been the right to hire permanent replacements [during the 1977 strike], I would be doing something else, somewhere else." And 100 more Americans might be without jobs. NB

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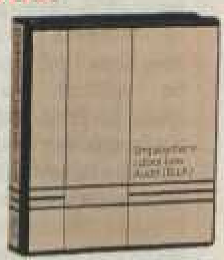

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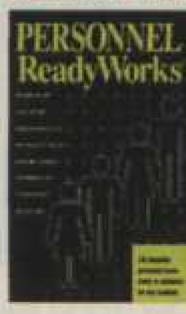

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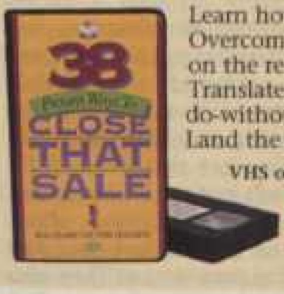

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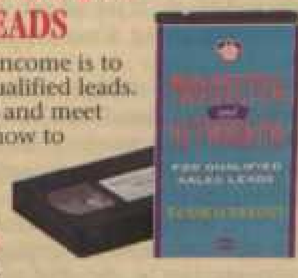

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Family Business

The beneficial returns of giving away money; the importance of choosing the right lawyer.

PLANNING

Philanthropy With Purpose

By John L. Ward and Craig E. Aronoff

The second-generation chief executive of a successful family business expressed dismay and surprise about part of his job experience. "I never believed giving away money would be so hard!" he said. "I feel hassled by the many requests for contributions from business associates and employees. The requests are usually for very worthwhile causes, but where do we draw the line? How do we make these decisions?"

While some argue that a corporation's only purpose is to make a profit, virtually every family business we know is quite generous. Family-business leaders are often very frustrated, however, about how to handle philanthropy. They have many questions: How much should we give? To what causes? Most of all, how can we make our giving a more positive experience?

The key, we think, is to have a focused family foundation. It can be small or large. It doesn't cost much to set up. And, we have found, it can bring many benefits to a business-owning family.

First, a foundation becomes the major conduit for corporate giving. Charitable requests can be directed to the foundation. The foundation's directors usually meet once or twice a year and determine what causes to fund. This means family executives don't need to respond on the spot to awkward situations such as requests from friends, customers, or a luncheon table mate at a trade meeting or civic event.

If the foundation is focused on one or a few purposes, there are other advantages. A focus—such as promoting literacy programs—provides a rationale for selecting among worthy causes.

More important, a focus gives the foundation a chance to make more of a difference. Directing scarce funds to a few predetermined purposes increases the results of such giving.

A focused family foundation can have great impact because business owners and their families often are skilled at

ILLUSTRATION: DAVID CHEN

identifying distinct needs and monitoring the performance of funds. Some families search for unique charitable needs where they can influence the results not just with their money but with their time and expertise as well.

One family we know directs its efforts toward entrepreneurship programs for young people in memory of their grandfather, the founder of the business. Another family gives its funds to research on workplace safety. Yet another family gives to alcohol and drug clinics because of past family problems with substance abuse.

Several families we know give their foundations' funds to scholarships for the children of employees as a sign of appreciation for those who have made the firms' success possible.

Consider directing family philanthropy toward the celebration of something special about the business—such as its founding, its customers, its industry, its employees, or its community. Then the philanthropy not only can make a focused difference but also can create side benefits for the business itself.

Establishing a foundation also can emphasize the importance of business profitability. The foundation can be funded by a formula based on profitability. Some businesses set the level at 5 percent of pretax profits; other companies choose lesser amounts.

We know several retired business owners who have become interested in focused philanthropy as a new vocation for themselves as they let go of the responsibilities of day-to-day business leadership.

We also find family members who are not active in the business appreciating the business more when they see the link between business success and family values. Their active involvement with the family foundation gives them a chance to work with other family members and to develop or apply their abilities. They can learn and practice decision-making and policy-setting skills.

Many families find that such activities reinforce relationships, build family pride, and even provide an element of pure enjoyment.

The central purpose of a family foundation, however, is not to make life easier on business executives or to provide family members with shared activities. Those are often nice side effects. The purpose, of course, is to reinforce the family's values—especially the value of giving back to the community what the family has received from it.

There are several beneficiaries: the recipients of philanthropy, the business itself, and in particular the family's younger members. When they observe the family working together, they can learn from it. They see that the family's entire identity isn't just the business, and then they feel more comfortable about their decision to join or not join the business when the time comes. They also gain some of the humility that we find serves future leaders of family businesses so well. ■

PHOTO: T. MICHAEL KEZA

John L. Ward, left, is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. Both are family-business consultants.

Choosing The Right Lawyer

By Sharon Nelton

When Lynn H. Vandercook needed legal advice earlier this year, he didn't want just any lawyer. He turned to Kay B. Wakefield, an attorney who grew up in a family business and who now specializes in family firms. Even Wakefield's Portland, Ore., law firm is a family business—she's in partnership with her brother, Ronald D. Browning.

Vandercook, president of Oregon Handling Equipment Inc., in Portland, says Wakefield's experience makes him feel "very comfortable." For family businesses, he recommends lawyers with backgrounds similar to hers. "They know what you're going through," he says, "because they themselves have been there, or have been at it long enough to know. They have a little sympathy, whereas with somebody else, it's just another job."

The right lawyer can help a family in business find a way to resolve issues and become stronger, increasing its chances of avoiding expensive litigation and the bitterness that accompanies it. The Vandercook family is a case in point.

Lynn Vandercook, 45, has worked at Oregon Handling for more than 20 years. He is a minority shareholder in the company, which distributes material-handling equipment items ranging from forklift trucks to ladders and has more than $1.2 million in annual revenues.

For several years, Lynn had been asking his father, Lyle—who turns 81 in June and is still active in the business—for the chance to read a living trust that he was told would give him the remaining shares of the business upon Lyle's death.

The trust had been drawn up by a competent lawyer friend of Lyle from Texas after the death of Lyle's wife, who had owned 51 percent of the company. Lyle resisted, but Lynn wanted to be sure that the trust said what his father thought it said and that it complied with Oregon law.

Lyle finally relented, and when Lynn read the trust, he felt it did not carry out his father's intent. In January, with his father's knowledge, Lynn hired Wakefield to review the trust and offer her advice.

"The written document didn't give Lynn the business," says Wakefield. Instead, it gave the stock in trust for Lynn's children and named Lynn's sister, Jan Mariakis, who lives in California, as trustee.

As lawyers who work with family businesses know, a simple rewriting of the trust was not the solution—at least, not immediately. Family-business clients often ignore all kinds of legal advice and even fail to execute wills and trusts.

"A common explanation for this seemingly irrational behavior is that underlying, unresolved family issues, so long as they remain unaddressed, will block or at least constrain all but the most herculean efforts by attorneys to give effective counsel," says Richard L. Narva, a lawyer and principal consultant at Genus Resources, Inc., a family-business consulting firm based in Needham, Mass.

Wakefield understood this. She says she found "a lot of distrust" in the family. There were hard feelings between brother and sister that dated back to childhood. She learned that while both the sister and the father agreed that Lynn deserved the business, they lacked confidence in his ability to run it. To complicate matters further, the three members of the board are Lynn, his sister, and his father—and Jan and Lyle could outvote Lynn any time.

"There was an attempt to integrate the estate plan with the business transition, but their family issues were stopping it from being a smooth transition," says Wakefield.

She told Lynn, in a letter that was shared with Jan and Lyle, what needed to be done to correct the flaws in the estate plan. But she also referred them to Joe Paul, a Portland family-business consultant who could help them begin working on the problems in their relationships with one another.

In a meeting with Paul, the family members agreed to hire a management consulting firm that could serve as a coach for Lynn to strengthen his management skills so that the family might develop more confidence in his ability to lead the company. The consulting firm, which began its work in March for a six-month period, will also make proposals for improvements in the business.

Lyle Vandercook has not yet revised his estate plan, but both Lynn Vandercook and Kay Wakefield feel progress is being made. "I sense that Lynn is feeling more in control of his business and the other family members are backing away from feeling like they've got to step in and rethink and second-guess his decisions," says Wakefield.

Wakefield has since been hired not as just Lynn's attorney but as the attorney for the company itself. She says that if there were a real conflict of interest—

PHOTO: ©STEVE BLOCH—BLACK STAR

An estate-planning problem *led Lyle Vandercook, left, and son Lynn to family-business attorney Kay Wakefield.*

For Further Reading

Four informative articles on lawyers and family business have appeared in *Private Business Advisor*, a newsletter published by U.S. Trust Co. of New York.

They are: "Lawyers, Families and Feelings: Representing the Family Relationship," by Gerald Le Van; "Representing Family Owned Businesses: A Lawyer Looks at the Limits of Effective Legal Counsel," by Richard L. Narva; "Organization and Culture in the Service of Family Business: A Lawyer Looks at Effective Legal Practices," by Michael L. Fay, and "Family Business Mediation: A New Way To Preserve the Business," by Edward Blumstein.

For free copies of any or all of the articles, contact Dirk Dreux IV at U.S. Trust, 11 W. 54th St., New York, N.Y. 10019-5484; (212) 887-0456.

such as a decision by the board to fire Lynn—the family understands that she would have to withdraw from representing either side.

Family-business lawyers are a relatively new breed. "It was only in the '80s that many law firms or many other advisers began to focus on the special needs of family businesses," says Michael L. Fay, a senior partner at Hale and Dorr, a 275-attorney Boston firm, and co-chairman of its Family and Closely Held Business Practice Group.

Nevertheless, you should be able to find an attorney who can serve family-business needs well. Here are some points to keep in mind:

1. Your attorney should understand family and business systems and be knowledgeable about issues that are unique to family businesses. Three different systems operate in a family firm, according to Wakefield—the family system, the ownership system, and the management system. She says a lawyer must know how each works, how their needs conflict, and how to keep them separate.

How much do family conflicts impede business planning? Who should be on the board? What should be done when sibling rivalry spills over into the business? To be effective, says Fay, the lawyer must be trained to resolve such questions and "to understand how the web of family relationships may generate family-business conflicts."

2. Look for technical competence. "Highly complex and technical legal matters must be resolved," Richard Narva points out. "Understanding that powerful family issues exist and recognizing the need to solve family conflicts does not mean abdicating the responsibility to give both imaginative and technically competent legal advice."

3. If you're considering a large legal firm, make sure there will be an attorney assigned to you who is what Fay calls the "responsible attorney." This is the one key attorney who will head up the work for your family, calling in the firm's other specialists as needed. You should feel not that you are a client of what appears to be a large institution, says Fay, but that you are the *personal* client of the responsible attorney.

4. Be sure your candidate understands that certain legal decisions will have family repercussions. For example, if one of three siblings is clearly the best choice to run the family's very successful company and her parents leave her the business, there may be a substantial disparity in the way the children have been treated.

5. Look for someone who understands his or her limitations. Kay Wakefield knew that directly helping the Vandercooks with interpersonal problems was outside her area of competence, and that's

PHOTO: ERICK FREEDMAN—BLACK STAR

A lawyer *should understand the family "web," says attorney Michael L. Fay.*

why she referred the family to Joe Paul. To its credit, the family has been willing to follow her recommendations. Lyle Vandercook, she says, "was delighted that someone was taking a look at his estate plan, and he was very receptive to the suggestions that I made. When it became very apparent that much of the work that really had to get done was opening up the avenues of communication and getting some of the family issues resolved, he decided to get those things resolved."

6. Find out if your candidate keeps up-to-date on family business. Is he or she a member of the Family Firm Institute? The association is based in Brookline, Mass., and is aimed at increasing the skills and knowledge of professionals who serve family-owned businesses. Does he or she attend conferences or training sessions on family business?

7. Look for a lawyer who cares. "Caring is demonstrated by actively helping the company grow and prosper," says Wakefield.

As you would when you hire any adviser, get referrals from others in your industry, particularly family businesses. Interview at least three candidates, and check references—as well as state and local bar associations—to learn if any complaints have been filed against a candidate.

Finally, don't procrastinate in getting legal help. "Much is missed because outside professional advisers are not consulted before important decisions are made," says Wakefield. "Most attorneys will tell you that their clients waited too long before consulting with them. The delay means that the options are fewer and less attractive." NB

MARK YOUR CALENDAR

June, Ohio

"Succession Planning for Family and Independently Owned Businesses" is a workshop on providing for your own financial security before transferring your business. Meetings will be in Cincinnati and Columbus. For dates and locations, contact Richard Carr at CIGNA Individual Financial Services; (606) 655-5200.

June 14-17, Marietta, Ga.

The "Family Business Academy" is aimed at preparing the next generation for family-business leadership. Contact Joe Astrachan at Kennesaw State College, (404) 423-6621 or 423-6045.

June 17, Hatfield, Pa.

"Making TQM Work for the Family Business" is a half-day executive overview of total quality management. Sponsored by the Delaware Valley Family Business Center and Goshen College. Contact Henry D. Landes at 1-800-296-3832.

Aug. 10, Durham, N.C.

"Family Business Succession—The Final Test of Greatness" is a seminar sponsored by the North Carolina Family Business Forum. To register or inquire about membership in the forum, contact Executive Director John Powell, P.O. Box 2888, Burlington, N.C. 27216; (919) 226-1380.

Oct. 1-4, Miami-The Bahamas

"Advancing the Family Business" is a shipboard seminar covering such topics as succession planning, customer development, and creating profits through better business planning. Contact Captain Cruise, Inc. in Schenectady, N.Y. at 1-800-347-3933.

How To Get Listed

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ENVIRONMENT

The EPA's New Guard

Business is watching to see the direction the agency takes under Carol Browner.

By Bradford McKee

Small-business owners concerned about the growing volume and complexity of environmental regulations are anxiously watching to see if the situation will improve or worsen under the Clinton administration.

The U.S. Environmental Protection Agency's new administrator, Carol M. Browner, will play a major role in shaping the environmental rules of the future. Browner, who headed Florida's Department of Environmental Regulation for two years before being named to the federal EPA post by President Clinton, describes herself as an environmentalist. And she was handpicked by Vice President Al Gore, himself an outspoken partisan on environmental issues.

Business has found some grounds for optimism, however, in reports from Florida business people that Browner displayed a strongly pragmatic streak when presented with sincere business concerns.

In the short time she has been at the EPA, Browner also has encouraged business representatives to let her know their views.

"Carol Browner is very bright, very tough, and very pro-environment," says Tallahassee attorney Wade Hopping, who successfully sought changes in state air-quality rules for a group of Florida industries while Browner was in office there. "But she's fair, and if you make your case on the merits, she will pay attention."

As she did in Florida, Browner has shown her willingness to reconcile economic and ecological priorities at the federal agency. In February, soon after taking office, she asked Congress to review and consider easing a contentious law banning traces of certain chemicals in processed foods. That move drew fire from environmental advocates and praise from business groups.

At Browner's confirmation hearing in January before the Senate Environment and Public Works Committee, Sen. Barbara Boxer, D-Calif., asked Browner specifically about her views on what is called the federal "community right-to-know" law, which requires that companies disclose to their communities any toxic compounds kept on their premises.

Companies have expressed concern that they may be compelled to divulge proprietary information in such disclosures.

Browner told Boxer: "I share your concern that communities have a right to know. Obviously, that has to be balanced against any trade-secret issues that may be relevant. ... I think there is a way to both meet the concerns of business and the communities' right to know."

Comments such as these were not expected by onlookers who were unfamiliar with Browner, who had served in Washington as an aide to Vice President Gore when he was in the Senate.

PHOTO: GEORGE BRACK—BLACK STAR

EPA administrator *Carol Browner promises improved communication between the agency and business.*

But business leaders would be mistaken in overestimating Browner's hewing to Gore, says Mary Bernhard, manager of environmental policy for the U.S. Chamber of Commerce, in Washington. "A lot of people think the White House is going to have a direct line to Browner's office at the EPA, with Al Gore calling the shots," Bernhard says, adding, "I don't necessarily feel that way."

If Gore were to act as phantom EPA administrator, Bernhard says, it would undermine the agency's morale more than it would bolster it. Plus, Bernhard adds, Gore probably recommended Browner for the EPA post as someone who could command it independently.

Nonetheless, Browner must consider President Clinton's campaign promises. As a candidate, Clinton said he would push pollution prevention, cut the use of fossil fuels, and phase out chemicals that deplete the stratospheric ozone layer. He also said his administration would attack the nation's solid-waste-disposal problems and clean up waterways and drinking-water supplies.

Clinton's budget priorities are in line with those promises. The EPA budget for fiscal 1994 is an early index to the environmental priorities of the new administration. The budget calls for increased aid to local governments to improve water infrastructure, and it emphasizes the use of revolving loan funds to pay for municipal water-improvement programs. Other initiatives signal the interest of Browner's team in preventing pollution and in strengthening the agency's programs that promote energy efficiency.

The administration's other plans include overhaul of the federal Superfund program, which was created in 1980 to clean up toxic-waste sites. The new budget calls for a barely detectable "streamlining" of its Superfund budget, to $1.4 billion from $1.5 billion. The Superfund budget includes a $10 million increase for enforcement activities, however.

Superfund's enforcement scheme has become the federal government's most harshly criticized environmental program. Business and industry groups detest the Superfund program for its long and unpredictable tentacles of liability. Other critics cite its cost overruns on cleanup jobs.

However, Superfund is only one of several major areas at the EPA in which businesses are looking for administrative and strategic improvements. Other major policy strokes in air- and water-quality programs and in waste management could occur by the end of 1994, either through passage of legislation in Congress or through executive orders.

Following is a summary of possible action on issues in the EPA's purview through 1994 as well as a look at Browner's previous handling of similar matters:

Air Quality

Federal action is incomplete on dozens of 1990 Clean Air Act rules covering smog, airborne toxins, and acid rain. The rules will increase the environmental-compliance burden of many small firms, such as dry cleaners and printing shops, and could curtail the growth of some firms'

operations and add costly paperwork and reporting requirements.

The Clean Air Act amendments of 1990 charged the states with implementing many of its strict new air-quality regulations. Most states have yet to pass legislation to effect clean-air compliance plans, which are due to EPA by November. Only about 15 states (including Browner's Florida) are up to date.

EPA's own delay in issuing guidance to the states has caused the backlog, says the U.S. Chamber's Bernhard. Companies waiting to file permits under separate deadlines are stuck, she says: "It comes down to 'Whose fault is it?'"

ended more to businesses' liking. Browner's office allowed Disney Development Co. to build a theme park on wetlands in exchange for donating the $40 million Walker Ranch in Florida to the Nature Conservancy, a private land trust. Such was her policy of "no net loss" of wetlands.

The tradeoff—jobs and tax revenues in exchange for land that would become a permanently protected ecosystem—was an instance of Browner's dovetailing environmental and economic issues. "The environmentalists are happy; certainly, Disney is happy," Florida Gov. Lawton Chiles told the senators at Browner's confirmation hearing. "It means construction and building will go forward."

Wetlands throughout *the country—this area is in the Chesapeake Bay region—could become the focus of conflicts when Congress revises the Clean Water Act.*

In Florida, companies argued to Browner that state air-pollution rules were "pro-bureaucracy," or anti-business. Browner ultimately supported industry's bid for flexibility in the reporting requirements, says attorney Hopping, and the rules ultimately emerged much closer to businesses' comfort level.

Water Quality

Also during her state service, Browner was caught in a dispute between the federal government and Florida farmers over protection of the Everglades. Federal officials sued the state, contending it had not protected Everglades National Park from agricultural chemical runoff upstream.

The settlement that Browner reached "will take farmland out of production," says Andy Rackley, vice president of the Florida Sugar Cane League, in Clewiston. For that reason, he says, Florida likely will lose jobs in the sugar industry.

Another wetlands matter, however,

Browner doubtless will have new wetlands conflicts to resolve as Congress attempts to revise the Clean Water Act. Federal legislators will likely consider further restrictions on wetlands development.

Environmentalists also are pushing for the restoration of degraded wetlands. Meanwhile, developers would like to see wetlands ranked by ecological "value," and they may call for paying landowners for wetlands that the law prevents them from developing.

Solid And Hazardous Waste

Also up for congressional review—in fact, overdue—is the Resource Conservation and Recovery Act (RCRA), which expired in 1990. With the possibility that the law may be reauthorized by this Congress, rules on companies' toxic-substance disclosures and on industrial-waste treatment could be tightened to the detriment of smaller firms.

As Congress rewrites RCRA, environmental groups may also push for a mandatory minimum of recycled raw materials to be included in certain manufactured products. Florida lawmakers rejected Browner's proposal to require a minimum amount of recycled content in Florida-made products.

In the wake of that defeat, Browner was credited with piloting a voluntary recycling proposal that has "economic development as its centerpiece," says Robert McKnight, executive vice president of the Florida Chamber of Commerce, in Tallahassee. The recycling plan, McKnight says, relies solely on resources in the state to recover materials for reuse, such as a processing plant planned near Orlando.

If her leadership tactics in Florida can serve as a barometer for the coming regulatory climate nationally, Browner will aggressively seek business support on new environmental solutions.

Surprisingly, Browner garnered petroleum-industry backing for shifting the cleanup costs from the state to the industry for leaking petroleum storage tanks. Industry's concurrence perhaps seemed improbable, but Browner "was someone we could work with" to head off larger, future disputes, says Bob McVety, director of the Florida Petroleum Council, in Tallahassee.

Ideally, national industry groups would find Browner as cooperative—and vice versa—as she wrestles with the federal bureaucracy.

Because strict environmental laws won't disappear soon, small firms say they need more-intensive help complying with regulations. Benjamin Y. Cooper, a government-affairs official for the Printing Industries of America, said at a recent Senate hearing that a small printing shop must comply with at least 46 environmental reporting requirements. "The central problem," said Cooper, "is that education and assistance simply [do] not have the same value at EPA as enforcement."

Carol Browner may change that. "EPA must deliver quick and consistent decisions," she said at her Senate confirmation hearing. She expressed her hope for "a new era in communication" between the EPA and businesses.

"The adversarial relationship that now exists ignores the real complexities of environmental and business problems," Browner said, "and often unnecessarily harms business without significantly aiding the environment." NB

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Free-Spirited Enterprise

By Janet L. Willen

ILLUSTRATIONS: JIM OWENS

In The Cool Of The Summer

Mowing the lawn, painting the house, and even sunbathing may never be the same. A cooling remedy for hot summer days comes from Nacogdoches, Texas. The Port-A-Cool, from **General Shelters of Texas, S.B. Inc.**, is a self-contained portable air conditioner.

You connect the unit to 110 volts and an ordinary water hose, and it releases 9,500 cubic feet of air per minute. The manufacturer says the device can lower the temperature up to 20 degrees Fahrenheit within an area of many hundreds of square feet. The unit is 5 feet 6 inches high, 5 feet 3 inches long, and 31 inches deep. It's designed for use indoors or outdoors.

The suggested retail price for the Port-A-Cool with one speed is $1,595. A model with variable speeds and a thermostat costs $300 more. For information, call 1-800-695-2942.

Easy Rider

Combine a motorcycle with a bobsled, put the result into the ocean, and what do you have? A new craze from—you guessed it—California.

The Wave Runner, from **Yamaha Motor Corp.**, of Cyprus, Calif., can travel approximately 40 miles per hour over and through waves. But the Wave Runner has no gears, clutch, or brake. You turn it on and off with your left hand, and you use your right hand to control acceleration by gripping a lever similar to that of a bicycle's hand brake.

The vehicle is a little like a jet ski, but you are sitting down when you maneuver it.

Aquamotion, of Redondo Beach, Calif., which rents the 650 Wave Runner, calls it a "water motorcycle."

A number of Wave Runners are available, varying in horsepower, speed, seating, and style. The suggested retail prices range from $4,599 to $5,999. If you'd rather rent, Aquamotion charges $60 per hour, or $40 per half-hour. For more information, call Yamaha at 1-800-442-2282, or Aquamotion at (310) 798-9283.

For Adults Only

If your sporting life includes firearms, then take a look at a safety device from **Firearm Safety Products, Inc.**, of Atlanta.

The company's battery-operated TriggerAlarm is designed for gun owners with children. The unit, usable on most firearms, covers the trigger area, making it inaccessible to children and others not authorized to use the gun.

A visual warning notifies unauthorized people to keep "hands off." If an unauthorized person tries to detach the unit, an 85-decibel alarm sounds. The alarm is activated and deactivated by a two-digit security code. Once you gain access, you must twist, depress, and slide pins away from the weapon to open and remove the device. The manufacturer compares the motion to opening a childproof medicine cap. It's easy for adults but hard for children.

The TriggerAlarm costs $29.95. The TriggerShield, a similar unit but without the alarm and security code, is available for $12.95. For information, call 1-800-424-0060.

For The Dogs—And Cats

Does your pet have morning breath—all day long?

The **Addison Biological Laboratory, Inc.**, of Fayette, Mo., says it can make your dog or cat socially acceptable.

The company's Maxi/Guard Oral Cleansing Gel is an alcohol-free, taste-free cleansing and freshening product. You apply a small amount of the gel on the gums above your pet's back molars, and the animal's natural licking action causes the gel to spread in the pet's mouth without brushing or rubbing. The company recommends that the gel be applied to small dogs and cats with

fingers or a gauze pad and that the bottle's built-in applicator tip be used for larger dogs. Maxi/Swab applicator tips are also available so the gel can be applied precisely where the pet owner wants it—or where the animal permits it—without getting hands dirty.

A four-ounce bottle costs $10.95 and lasts approximately six months if used daily on one pet. Veterinarians carry the products. Call 1-800-331-2530 for more information. NB

To Your Health

Managing well includes managing your own health; here is advice to help you do that better.

By Bevins K. Chue

How To Give Your Back A Break

After the common cold and the headache, the most frequent causes of worker absences are backaches and neck aches; they affect four out of five adults at some point in their working lives.

Some of these aches can be attributed to the natural aging process and to normal wear and tear on the spine; but you can minimize or avert a great deal of discomfort if you take simple, commonsense precautions.

Begin by rearranging or modifying your work space, and then spend a few minutes daily on reducing the physical stress of work.

Here's a basic guide:

Desk height: Your desk or table should be not so low as to cause you to hunch over, or so high as to cause you to sit with raised elbows. Since you probably can't change the height of your desk, change the height of your chair instead—or get a new chair. If necessary, sit on a telephone book or a firm pillow.

Chair: Too many nonadjustable office chairs are too low, long, or mushy to support the back properly. If you can't acquire a new, ergonomically correct chair, a simple straight-back chair is preferable.

Back support: The strong inward curve in the small of the back, just above the pelvis, is called the *lordosis* and is the source of most lower-back pain. When the curve of the lordosis is temporarily lost, from long periods of sitting or improperly bending over, pain may develop. For people who sit for prolonged periods, a lumbar support is essential to preserve this important curve.

You can buy a lumbar-support pillow or roll relatively inexpensively at a medical supply store. Or make a lumbar support by simply rolling up a towel firmly to a diameter that suits you (around 3 to 4 inches).

Make sure the lumbar support is positioned so that it rests at the lordosis; you may have to attach it to the back of the chair, perhaps with a large, strong rubber band.

Foot support: When you are sitting or driving, your knees should be as close as possible to the level of your hips and, if possible, above them, to relieve pressure on the lower back. In a car, move your seat far enough forward to attain this position. At your desk, use a movable foot support so it can slide around as you shift weight.

PHOTO: SCHARLES GUPTON—UNIPHOTO

Backaches *may be eased by altering your work area and stretching your spine.*

Desktop: Position items on your desk so that you can reach them without continual twisting movements. Write on a slanted surface; the extra height allows you to hold your head higher and spine straighter.

A desktop reading stand keeps your head up in the same way.

Use a speaker phone rather than cradling the receiver between your shoulder and neck; a headset is an even better idea. Stacked trays help you reach often-used papers easily.

Stretch every hour: Try to get up from your desk or out of your car at least once every hour. To offset the effects of the fixed posture we adopt during the day, try the following simple stretches to straighten your spine, relax neck muscles, and generally relieve tension.

■ In your car (at stops only), do a *shoulder stretch:* Clasp your hands behind your head and, holding your head straight, gently pull your elbows together, hold for a count of five, and release. Repeat five times. This exercise stretches the muscles between your shoulder blades and certain neck muscles. Try this at your desk, too.

■ In your office, do these stretches:

Neck roll: Roll your head slowly in a complete circle, gently stretching, five times clockwise and five times counterclockwise.

Shoulder shrug: Slowly raise your shoulders as high as possible, inhaling as you do. Hold for five counts, then lower your shoulders to the starting position, exhaling as you go. Repeat four or five times.

Pinky pinches: Arms out, try to touch your pinky fingers together as far behind your back as possible.

Side stretch: Standing or sitting, slowly raise one arm over your head while bending to the opposite side. Hold for a count of five and return to your starting position. Repeat four or five times, alternating arms.

Back extension: Stand and place your hands in the small of your back. Lean backwards as far as possible. Repeat three times.

Calf stretch: In a standing position, near your desk or wall, place one foot slightly ahead of the other while keeping the heel of your back foot on the floor. Slowly lean forward, supporting yourself with your hands on the desk or wall. Hold that position for about 30 seconds, return to your starting position, and switch legs. Repeat several times with each leg.

Spine straightener: In a sitting position, slowly bend forward so that your hands touch the floor, and hold for five counts. Curl back up and repeat four or five times. Keep your feet close to the chair and your head down as you curl down.

Remember to stretch only until you feel a gentle pull-stop before pain sets in. If back pain persists for more than few days, it is time to see your doctor. NB

Bevins K. Chue, M.D., is director of rehabilitation medicine services at the Comprehensive Spine Center, Midway Hospital Medical Center, in Los Angeles.

It's Your Money

A monthly survey of strategies and suggestions to help you with your personal finances.

By Peter Weaver

CREDIT CARDS

Perks And Drawbacks Of Corporate Cards

Issuers of corporate credit cards are promoting them among small-business owners and managers. Would a corporate card be a good buy for your firm? You have to weigh the advantages and possible drawbacks.

A corporate card may offer features you don't really need, or it may duplicate some that you already have with your personal card, and at the same time it may not afford you as much protection as your personal card does.

When you use your personal card, the Fair Credit Billing Act lets you withhold payment for any product or service that was not delivered, was damaged, or otherwise was not received as advertised. Some corporate-card issuers write such protection into their agreements, others do not.

Also, some corporate cards offer less protection against fraudulent use than personal cards provide. When you use a personal card, the law says, you are liable for no more than $50 if a crook uses your card or card number—even if the tab for illegal charges runs to thousands of dollars. Tricia Wiseman, a spokeswoman for Visa, says, "We provide corporate cardholders protection covering disputes under the Fair Credit Billing Act, but not in cases involving fraudulent use of cards."

For small-business owners, though, special perks and privileges may outweigh the lack of protection against billing disputes or fraudulent card use. Says Chris Levite, director of public affairs for American Express: "We have a small-business program that provides a list of separate benefits for the company and the individual [employee] cardholder." For example, through Amex Quarterly Management Reports, small-firm owners can review expenditures and organize records for tax purposes.

Most corporate-card issuers also have hotel discount programs for small-business cardholders that are essentially the same as those for large companies. ■

INVESTING

Do-It-Yourself Market Analysis

As a joke, bond and stock traders sometimes liken market analysts, technicians, and other investment prognosticators to the seers and soothsayers of ancient times who probed sheep entrails to predict the future.

But, joking aside, most professional traders do pay careful attention to what market technicians are saying about the future course of inflation, interest rates, and market swings.

Rao Chalasani, chief investment strategist for Kemper Securities in Chicago, has written a guidebook that attempts to bring the securities' soothsaying science down to earth, so that the average investor can better understand what's going on. The guidebook, which supplements Kemper's regular *Market Observer* publication, contains inside indexes that most people rarely see or even hear about.

For example, the "Anxiety Index" is based on the prices of gold and silver. "When the index is high," says Chalasani, "it means we are in a deflationary position, and when it drops it means inflation could be a worry."

To calculate your own index figure, divide the price of gold by the price of silver; these numbers are usually quoted in financial publications and local newspapers' business sections. Recently, the index has been around 85 to 90. "If it drops below 60," Rao says, "it means inflationary times could be just around the corner." Inflation usually means higher interest rates and a slumping stock market.

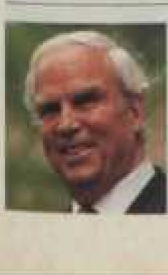
Then there's the "Dividend-Multiple Index." This shows you, on a grand scale, what investors have to pay to get a dollar's worth of dividends.

You get the dividend figures from the weekly Dow Jones Industrial Average list of 30 stocks, which can be found in *Barron's* and other financial papers. You divide the Dow dividend figure into 100 to get your index number, which has been bouncing between 32 and 35. "The break point," says Chalasani, "is 33." If the index goes much above that level, he explains, it could mean risky times for the stock market.

Obviously, you shouldn't buy or sell specific securities based on the twists and turns of the index numbers. But knowing more about deflation, inflation, interest rates, dividend trends, and silver and gold prices might be helpful in guiding your long-term investment strategy.

PHOTO: ©JON RILEY—THE STOCK SHOP

Gold and silver *prices create the "Anxiety Index." When it falls, look for inflation.*



Peter Weaver is a Washington-based columnist on personal finance.

Tax-Favored Annuities: Good For Your Portfolio?

Under Clinton administration proposals, the effective marginal tax rate for middle- and upper-income individuals could jump to nearly 40 percent from 31 percent.

When this kind of tax change hits investors, many of them look for shelters. One of the few left is a variable-rate annuity.

Annuities are sold by insurance companies and by mutual funds associated with insurance companies. Although there are annual limits on how much you can invest in an Individual Retirement Account, 401(k) plan, or Keogh, there are no such limits on annuities.

Nonetheless, you should proceed carefully when you are investing in annuities, says Jennifer Strickland, editor of a newsletter on variable-rate annuities; it is published by Morningstar, a rating serv-

ice in Chicago. "Before investing in an annuity," she says, "you must first make sure that you have maximized investments in any 401(k) or other employment-based, tax-deductible retirement program."

Employment-based investments provide a double tax benefit. You defer taxes on investment earnings, as you do with annuities, and you also defer taxes on the money you contribute every year.

The two basic kinds of annuity investments are fixed-rate and variable-rate. The fixed-rate annuity is somewhat like a certificate of deposit. It guarantees a specific rate of return, though the rate is lower than what you may be able to get through a variable-rate annuity.

"With a variable-rate annuity," Strickland says, "you're basically investing in a mutual fund wrapped in an insurance-annuity plan." The insurance feature allows it to be treated as a tax-deferred investment vehicle under the tax code.

Although variable annuities can work wonders for many higher-income investors, they're not for everyone. "I usually don't recommend variable annuities for people who are less than 40 years old," says Arthur Gelman, a financial planner with the Commonwealth Financial Group, in Bethesda, Md. "This type of tax-favored investment is better suited for people in their 50s and 60s," he explains, "because you can be hit with a 10 percent tax penalty if you cash in before age 59½." The older you are, the more flexibility you have.

The sellers of variable annuities also impose penalties for cashing in early. You have to hold your investment an industry average of six to seven years before you can take money out without incurring an early-withdrawal penalty.

So, you should be in for the long term, and thus the investment performance of any mutual fund you choose is important. Also important is the size of the basic management and insurance fees charged by the seller.

"When you are in for the long haul," says Morningstar's Strickland, "it's a good idea to aim for aggressive growth in stock funds or high-yield bond funds." To make the most of your tax-deferred status, she explains, you need high capital gains or high income from your investment.

The ideal variable annuity will have a high rate of return over the years and low service fees. In its annual *Variable Annuity/Life Source Book*, Morningstar has a "Star Rating" that simplifies performance and cost comparisons. This service is $195 a year, but brokers, financial planners, and most major libraries have it.

Some caveats: Strickland says you should resist adding special features such as "fancy death benefits," because they add too much to the overall cost.

Gelman says he doesn't recommend choosing to have the funds distributed in an annuity (getting guaranteed monthly payments for life) because "it's a gamble between you and the insurance company as to how long you're going to live." ■

INSURANCE

Grade Inflation: When Ratings Are Less Than They Seem

In the life-insurance business, industry rating services' alphabets don't all mean the same thing. One service's B+ can be another's A+ and yet another's C+.

So what should you do when you and your insurance professional are selecting a company that you must count on a given number of years down the road to pay your life-insurance beneficiaries or your retirement-annuity benefits?

"Ask for a company that shows up in the top two or three [out of six] rating categories among all of the rating services," says Don Mehlig, a Torrance, Calif., insurance broker who is past president of the American Society of Chartered Life Underwriters.

Martin D. Weiss, an industry maverick who has his own rating company in West Palm Beach, Fla., says it would be "highly unlikely" that an insurance company that had received a top rating from all the services "will fail within the average lifetime of the policy."

Weiss is a tough grader—maybe too tough, some say. Others in the industry maintain that you don't need to pick the absolute top-level grade among the services; they contend that you can dip down another level or two and still be safe.

"There are only around 18 companies [out of hundreds] that are top-rated by everybody," says Mehlig. Sticking with that one level could severely limit your selection process, which includes looking for the right policy, at the right price, with the right support services.

When you're checking the rating services, you will be dealing with grade marks from A.M. Best, Duff & Phelps, Moody's, Standard & Poor's, and Weiss. ■

TRAVEL

The Chanciest Part Of Your Flight: Leaving The Airport

Often when you walk out of an airport, bags in hand, you are faced with an array of ground-transportation choices—cabs, airport shuttles, special shuttles, limousines, and buses.

A cab may get you there quicker, but it could cost you plenty. A bus, limo, or shuttle may cost a lot less but take more time. If you want to save money and still get there on time, there are three questions you have to ask:

■ Does it go where I want to go or near where I want to go?

■ Approximately how long will the ride take?

■ How much does it cost?

PHOTO: GARY L. KIEFFER—FOLIO, INC.

Out at the curb *in front of the airport, you may face confusing—and costly—choices for the trip into town.*

A limo usually costs less than a cab. But not always. If it's a service that charges for use of the vehicle and not per passenger, you could pay more than a cab ride would cost—unless, of course, you get four or five other people to ride with you.

"You will almost always get the best ride for the best price if you check in advance on these three points," says Ray Mundy, executive director of the Airport Ground Transportation Association, based in Knoxville, Tenn. This can be done, he says, through the airport's information booth or Travelers Aid.

Some airports also have ground-transportation information boards or kiosks, which generally are near the baggage-pickup area.

These sources can tell you exact charges to your destination for the buses, shuttles, and limos and can give you an honest estimate of what a cab ride might cost, including tip.

It may even be more convenient, and less expensive, to rent a car.

To get downtown from two big airports—New York's LaGuardia and Boston's Logan—the ground transportation advisers might tell you that you'd save time and money by taking the water shuttle across the river or the harbor.

"Whatever you do," says Mundy, "don't accept ride offers from someone who approaches you in the airport. These people are almost always operating illegally, and you could get clipped." NB

For Your Tax File

How to keep taxes from trapping you.

By Albert B. Ellentuck

DEDUCTIONS

Making The Most Of Charitable Gifts

If you own a business and want to make a contribution to charity, you can bequeath to charity part or all of the interest in your company. Such a bequest has tax advantages. The fair market value of the portion left to charity is eliminated from your taxable estate.

For example, a 55-year-old businessman owns a one-third stock interest in a company, and he receives a salary plus a cash dividend of $70,000 a year on the stock. He has no family, and he wants to leave all of his stock, valued at $1 million, to a charity, eliminating that sum from his taxable estate.

But there is an even better way to provide for charity. The business owner can set up a charitable remainder trust. By putting his stock holdings into the trust, he could receive a payout of say 7 percent of the holding each year for his lifetime.

Upon his death, the value of the trust would go to the charity.

In this way, he would receive essentially the same amount as he does now, which is 7 percent each year on the value of his stock, a so-called "unitrust."

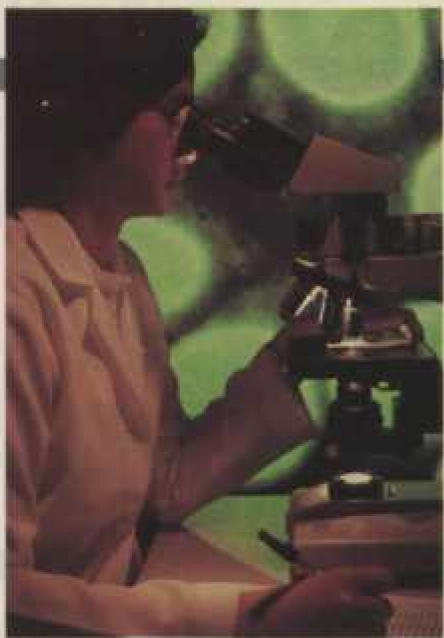


PHOTO: ©JEFF ZARUBA—FOLIO, INC.

To support *good works such as medical research, consider a charitable trust.*

On his death, the charity would receive the same amount as if it had received the stock under his will, and the value of the stock would be eliminated from his estate.

In addition, however, if he sets up a charitable remainder trust while he is alive, he also gets an income-tax deduction based on the present value of the remainder interest for charity. In this case, retaining a 7 percent payout on his $1 million of stock results in a deduction of about $260,000.

If the firm does not pay dividends, it is possible to set up an "income-only" unitrust, with a 7 percent payout and a "make-up" account. A 7 percent return on $1 million would call for a $70,000 annual payment to him from the trust.

Because the stock pays no dividends, $70,000 from the $1 million holdings would be credited to the make-up account each year.

When the company redeems the stock, the business owner or his estate will then receive the amount in his make-up account, and the charity will receive the rest.

Thus, by establishing the trust during his lifetime, he also receives an immediate income-tax deduction even if the stock he puts in the trust pays no dividends. ■

FILING RETURNS

Can't Pay Your Taxes? Here Are Some Options

More and more individuals are finding they don't have enough money to pay their federal taxes, and the Internal Revenue Service has taken this into account with newly relaxed rules.

In the past, the customary extension to Aug. 15 for filing an individual tax return had to be accompanied by a check for an estimated total of all federal taxes still owed. Now, the extension to Aug. 15 also gives the taxpayer until that date to pay taxes owed without incurring a failure-to-file penalty. You will have to pay a 0.5 percent late-payment penalty each month on taxes still owed plus the variable-rate interest that the agency applies to amounts it is owed—currently 7 percent a year.

Another easing of the payment burden is Form 9465-Installment Agreement Request, which you attach to your return, whether you are filing on time or late. The installment-payment plan, a new IRS procedure, lets you pay your taxes monthly with the 0.5 percent late-payment penalty plus the 7 percent interest.

Under the installment plan, you can pay the balance at any time, halting the late-payment penalty and the interest. This method is best for short-term use. However, if payments continue over a long period, the effective rate of 13 percent could be a burden.

To avoid the IRS's late-payment penalty and interest charges, those who are cash-short at tax time should consider borrowing the money to pay the IRS in full.

A home-equity loan would be the best way to borrow because the interest generally is tax-deductible.

If you can't borrow, you might apply to the IRS for a "compromise" with the agency. This works if you have little or no assets and your future income is not very promising. The IRS may settle for less than the full amount of your tax obligation.

What happens if you simply don't file any return?

If you requested the extension to Aug. 15 for filing, of course, there are no failure-to-file penalties during the extension period.

If you didn't file and didn't get an extension, you will incur a failure-to-file penalty on your unpaid taxes. That's why late filers should file a return right away—if only to halt the accumulation of the stringent failure-to-file penalty, which is 5 percent per month of taxes owed (with a maximum of 25 percent).

The same is true if you have an extension to Aug. 15. File a return before the due date even if you can't pay.

If you file but fail to pay, however, at least the IRS won't treat you like a crook. The agency will pursue you as would any other creditor to whom you owe money, but it won't prosecute you for fraud for not filing. NB

Tax lawyer Albert B. Ellentuck is a partner in the Washington law firm of Colton and Boykin. Readers should see tax and legal advisers on specific cases.

Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

OFFICE MANAGEMENT

For The Organizationally Impaired

Help! I am a business owner who can't seem to get his desk and office organized and free of paper clutter. Any suggestions?
I.M., Belleville, Kan.

Getting organized is a top priority but a rare accomplishment for most entrepreneurs, professional organizers say. These experts' tips for reducing paperwork burdens are grounded in one rule: Handle each piece of paper only once.

Professional organizers can help you develop systems to reduce your paper jams. For the names of such professionals in your area, contact the National Association of Professional Organizers, 655 N. Alvernon, Suite 108, Tucson, Ariz. 85711; (602) 322-9753. The organization's membership directory is available for $15.

How To Conquer Clutter (Writer's Digest Books), by Stephanie Culp, offers advice on how to clean up your office. The book is $10.95 at most bookstores.

How to File and Find It is a booklet (first copy free, additional copies $2.95 apiece plus shipping) available from the Quill Corporation Business Library, 100 Schelter Road, Lincolnshire, Ill. 60069; (708) 634-4850.

ILLUSTRATIONS: MARTHA VAUGHAN

WORK FORCE

Tips On Temps

I am looking into hiring some temporary workers for my small firm. I'd like some information on the subject before I move ahead.
W.C., Tucson, Ariz.

In her book *Succeeding in Small Business, The 101 Toughest Problems and How to Solve Them* (Penguin Group), author Jane Applegate lists a dozen factors to consider before bringing aboard a temporary worker. Among her suggestions:

- Don't be afraid to ask what you will be charged for a temporary worker.
- Determine exactly what you need the temp to do.
- Make sure you have a place for temps to work and the proper equipment for them to use.
- Designate one person to supervise temps.
- Ask fellow business owners to recommend their favorite temporary-service company.
- Determine whether the company will guarantee your satisfaction and replace a worker who isn't meeting your expectations.

Applegate's book is $12 and is likely to be available at your local bookstore or library.

The National Association of Temporary Services offers a free brochure, *How to Buy Temporary Help Services*.

For a copy, send a stamped, self-addressed envelope to the association at 119 South St. Asaph St., Alexandria, Va. 22314.

MANAGING

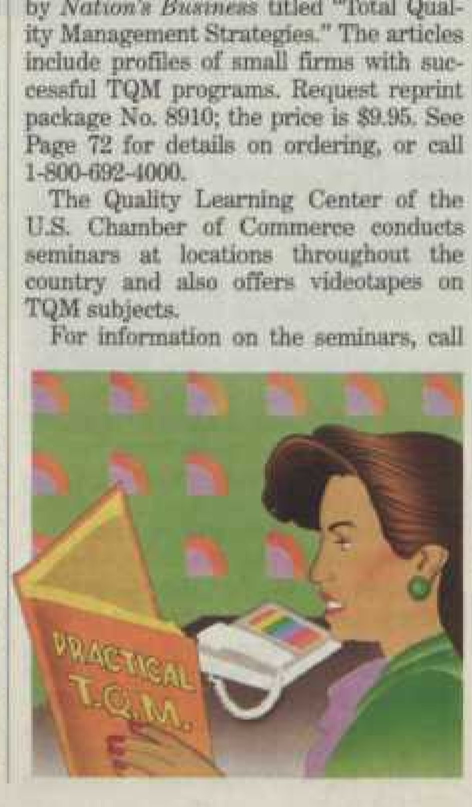
A Quest For Quality

I need a practical, hands-on outline on Total Quality Management that I can apply to my business. Have you any suggestions on where a company can find out *how* to do it?
E.C.O., Bedford Park, Ill.

There are many helpful resources on Total Quality Management (TQM). For an overview, try the reprint package offered by *Nation's Business* titled "Total Quality Management Strategies." The articles include profiles of small firms with successful TQM programs. Request reprint package No. 8910; the price is $9.95. See Page 72 for details on ordering, or call 1-800-692-4000.

The Quality Learning Center of the U.S. Chamber of Commerce conducts seminars at locations throughout the country and also offers videotapes on TQM subjects.

For information on the seminars, call 1-800-835-4730. For a faxed list of TQM videotapes and prices, call 1-800-851-8705 (in Washington, D.C. 463-5774) Extension 106.



Quality Management (Business One Irwin), by Bruce Brocka and M. Suzanne Brocka, offers a detailed look at quality management, including its primary elements and how it can be implemented in a company. One of the book's chapters, "75 Quick Start Ideas," offers practical advice on getting results fast.

The book is $35 plus shipping and state and local taxes. It may be ordered by calling (708) 798-6000. Ask for ISBN No. 1-55623-540-2.

Another useful book on TQM is *The Baldrige Quality System* (John Wiley & Sons, Inc.), by Stephen George. It is a do-it-yourself guide for incorporating a quality program in a business. It contains information on leadership, strategic quality planning, and human-resource development and planning, and it offers detailed advice on how to apply for the national Malcolm Baldrige Quality Award.

To obtain the book, call (212) 850-6000 and ask for the order department. Refer to ISBN No. 0471557986. The price is $29.95; shipping costs and state and local taxes are additional.

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Writers will be identified only by initials and city. Questions may be edited for space.

TRANSPORTATION

Hitting The Road

I need information on starting a trucking business.
D.W., Hamilton, Ohio

For customized answers to your questions, contact the Information Center at the American Trucking Associations; (703) 838-1880. The organization sells a wide variety of publications, and it has published *Profitable Trucking*, a book available for $10.95 plus $2.50 for shipping, prepaid. The book's topics include how to get started in the trucking business, accounting and bookkeeping procedures, financial planning, maintenance, insurance, taxes, regulations, and sources of assistance.

To order, write or call the American Trucking Associations, 2200 Mill Road, Alexandria, Va. 22314; (703) 838-1700.

CONTRACTING

A House Of Logs

I have a small contracting business that specializes in the building of log houses. Is there an organization that might have some information on this industry niche?
P.B., Hanover, Vt.

Skip Ellsworth, president of the Log House Builders Association of North America, says he would be happy to talk with you about log-house construction, building materials, costs, industry trends, marketing, and any other information you need.

The association also publishes *Log House Builders Journal* and *Log House Builders Association Newsletter*, which may be ordered directly from Ellsworth.

For more information, call Ellsworth at (206) 794-4469, or write to Log House Builders Association of North America, 22203 State Route 203, Monroe, Wash. 98272.

INTERNATIONAL TRADE

Looking Abroad

I manufacture a product that I would like to export overseas. Is there an agency I may contact for more information?
F.J., St. Louis

The Trade Information Center, part of the U.S. Commerce Department, offers a wide range of U.S. government export-assistance programs and services. For more information, call 1-800-USA-TRADE Monday through Friday from 8:30 a.m. to 6 p.m. Eastern time.

Export Programs: A Business Directory of U.S. Government Resources, published by the Trade Information Center, contains information about federal programs and services related to exporting. The directory also includes addresses and telephone numbers of additional government resources.

To request a free copy of the directory, contact the Trade Information Center, or call the U.S. Government Printing Office at (202) 783-3238.

The Trade Information Center acts as a clearinghouse for the 19 other federal agencies that deal with export programs; it fields inquiries and refers callers to the agencies best-suited to help with each specific request. NB

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Some states—and local organizations, too—are helping small firms find capital. (Page 28)

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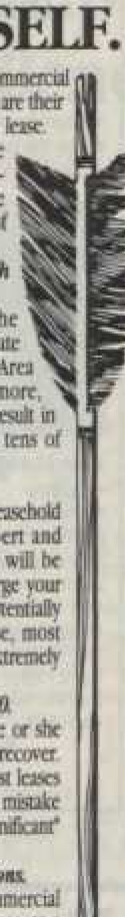

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Where I Stand

PHOTO: ©FRANK MOSCATI—THE STOCK MARKET

ON OSHA REFORM

Results of this poll on proposals to reform the Occupational Safety and Health Act will be provided to the administration and congressional leaders.

Send the attached, postage-paid response card. Or circle your answers below, and fax this page to (202) 463-5836.

1

Does the Occupational Safety and Health Act as it now stands protect the legitimate interests of both employers and employees?

1. Yes
2. No
3. Undecided

2

If you think the law is biased, does this bias favor employers or employees?

1. Employers
2. Employees
3. Undecided

3

Would expanding the categories of criminal behavior and increasing the criminal penalties provided under the present law result in greater job safety?

1. Yes
2. No
3. Undecided

4

Should there be a small-business exemption from further expansion of OSHA inspections and record-keeping laws?

1. Yes
2. No
3. Undecided

5

Should federal law mandate a role for workers in the formulation of company safety plans?

1. Yes
2. No
3. Undecided

6

Should federal law require all companies to have a detailed safety plan?

1. Yes
2. No
3. Undecided

Send Your Response Today!

POLL RESULTS

Readers' Opinions On Clinton Plan

A significant majority of *Nation's Business* readers believe the federal deficit should be reduced by lowering spending. Eighty-two percent indicated that course as their preference in the April Where I Stand poll of readers, while 1 percent said higher taxes would be the best course, and 17 percent preferred a combination of higher taxes and lower spending.

The poll was conducted before the House Ways and Means Committee began work in early May on the president's tax proposals for fiscal 1994 and during the period when Republican senators defeated a Clinton proposal to increase spending in fiscal 1993 for immunization, summer-job, and infrastructure programs.

Congress had earlier passed Clinton's proposed budget outline for fiscal 1994.

Three-fourths of the respondents to the poll said they believed Clinton's economic plan would hurt rather than help the economy, and a similar percentage said the president's plan would hurt their businesses.

Ten percent said the plan would help the economy, and 6 percent said it would help their businesses.

Fourteen percent saw the plan having no significant impact on the economy, and 19 percent said they believe the plan would have no significant impact on their companies.

When asked if federal spending should be increased on such Clinton priorities as the infrastructure, technology development, and job training, 63 percent said no, 24 percent voted yes, and 13 percent were undecided.

CLINTON PLAN

How should the federal deficit be reduced?	1. Higher taxes	1%
	2. Lower spending	82%
	3. Combination of both	17%
How would the president's economic plan affect the overall economy?	1. Help	10%
	2. Hurt	76%
	3. No significant impact	14%
How would his plan affect your business?	1. Help	6%
	2. Hurt	75%
	3. No significant impact	19%
Should federal spending be increased on such Clinton priorities as the infrastructure, technology development, and job training?	1. Yes	24%
	2. No	63%
	3. Undecided	13%
Are the president's proposals on capital gains, investment tax credits, and other growth incentives adequate?	1. Yes	13%
	2. No	68%
	3. Undecided	19%

Congressional Alert

A report on key legislative issues with suggestions for contacting Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510; U.S. House of Representatives, Washington, D.C. 20515.

Procurement Reform

ILLUSTRATIONS: RICHARD GADE

Congress is taking a serious look at several recommendations for streamlining the federal system of purchasing goods and services from the private sector. The recommendations were made by a panel of experts in a document called the *800 Panel Report*.

One of the most significant changes would be the creation of a simplified acquisition threshold to be set at $100,000. All purchases below that threshold would be reserved for small businesses. The current threshold is $25,000.

In addition, purchases below $100,000 would be exempt from a number of laws and contract clauses so that the government could use expedited purchasing procedures for these contracts.

The panel also recommends significant changes in the way the Defense Department buys commercial products. The department currently requires widely available items, such as cookies, ketchup, and pencils, to be produced to detailed specifications for the government; such items cannot simply be bought as they are already being produced.

This process often boosts significantly the cost of basic items regularly purchased by the government.

The panel suggests that a law be enacted strongly favoring the use of commercially available items and that those items be defined broadly. It also recommends that such purchases be exempt from a number of auditing and paperwork requirements.

The U.S. Chamber of Commerce has long favored key procurement reforms in the federal system, including the use of less-costly commercial-style purchasing practices and increased buying of "off-the-shelf" commercial products.

Contact your senators and representative, and urge them to support procurement-reform legislation this year based on the *800 Panel Report* recommendations. ■

Sensible Food Regulation

Bipartisan legislation has been introduced in the House to ensure the availability of a healthful and nutritious U.S. food supply.

The Food Quality Protection Act of 1993, a bill designated H.R. 1627, would take the Federal Food, Drug, and Cosmetic Act into the 21st century by replacing the antiquated Delaney clause, according to the legislation's proponents.

The clause prohibits the use of any food additive that has been shown to cause cancer in humans or animals, no matter how statistically insignificant the health risk.

To illustrate the degree of risk involved in a head of lettuce, for example, a 150-pound adult would have to eat 3,000 heads of lettuce a day for decades to ingest the amount of pesticide necessary to cause health problems found in laboratory animals.

According to the U.S. Chamber of Commerce, a strict interpretation and application of current law threatens the availability of many foods that are necessary for a healthful diet. Pesticide products are responsible for the abundance and year-round availability of fresh fruits and vegetables. It is estimated that a ban on the use of pesticides would result in at least a 50 percent decrease in fruit and vegetable production.

The Chamber strongly supports H.R. 1627 because it would apply a consistent, flexible, and science-based standard for setting pesticide-residue tolerances for raw commodities and processed products, but it would not preclude federal agencies from imposing stringent controls to protect Americans' health. And it would also make it easier to cancel the registration (or license for use) of older, more harmful pesticide products.

Contact your representative, and urge support of H.R. 1627 and the continued availability of a healthful, abundant, and affordable food supply. ■

High Stakes On Trade

Congress will soon consider the North American Free Trade Agreement (NAFTA), which was negotiated by the Bush administration and the leaders of Mexico and Canada.

The pact would forge a U.S.-Canada-Mexico unified market of 360 million people with a total annual output of $6.5 trillion in goods and services.

According to the U.S. Chamber of Commerce, the stakes are enormous. Every $1 billion increase in exports to Mexico would create an estimated 19,000 jobs in the U.S.

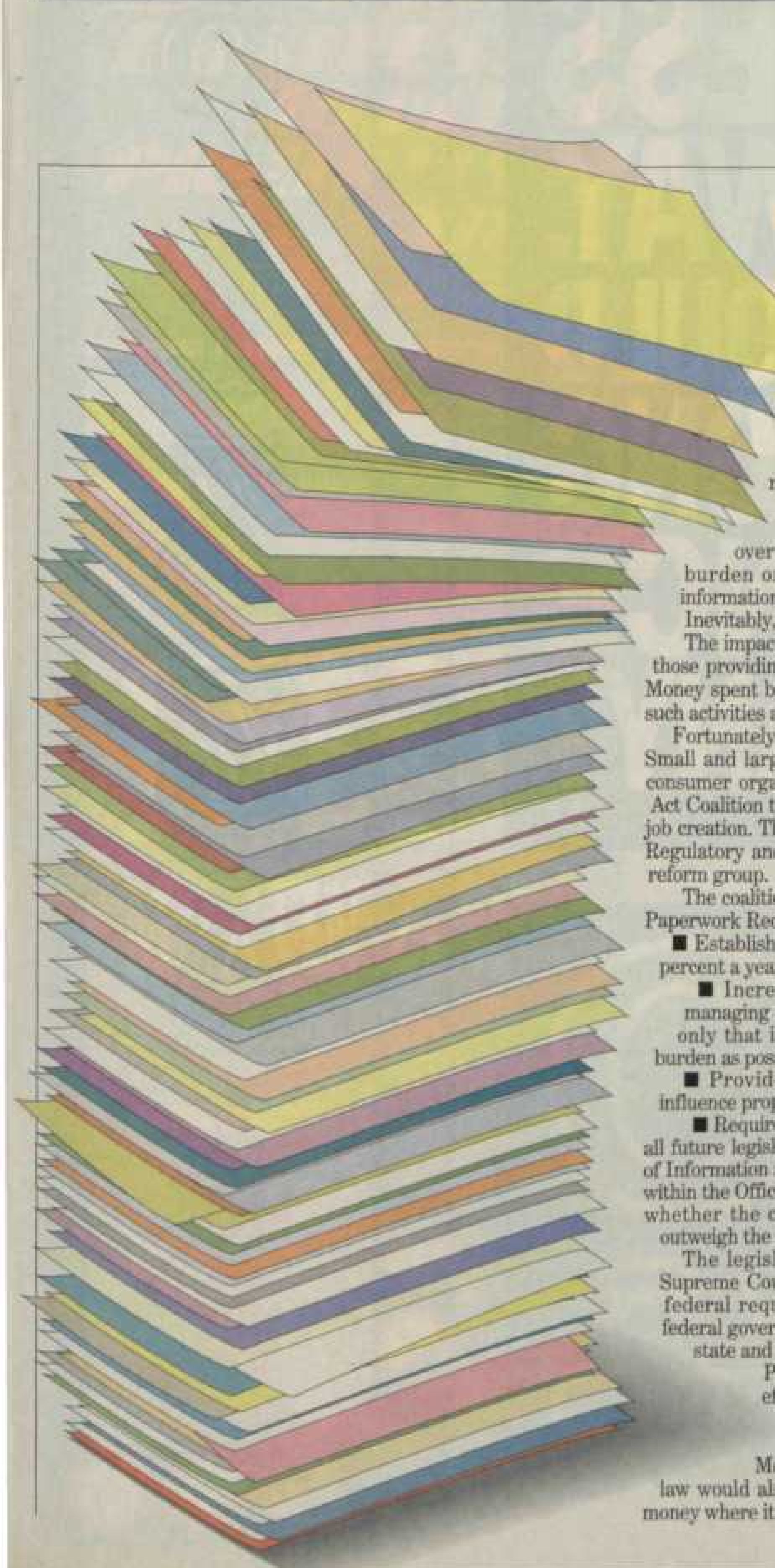
The Chamber, which has been in the forefront of business efforts supporting the agreement, points out these advantages for smaller firms:

- Removal of all Mexican tariffs on U.S. goods (50 percent immediately and 98 percent by 2004) and removal of Mexican customs user fees by 1999 would enable small U.S. firms to export to Mexico less expensively.
- Mexico would open its border to U.S. trucks for the first time, lowering shipping costs and making the Mexican market an ideal venture for first-time exporters.
- U.S. construction-services firms would gain access to the Canadian procurement market for the first time.
- Rules of origin would require inclusion of more North American-made components in automobiles, textiles, and other items, boosting NAFTA-wide sales for smaller U.S. suppliers of parts.

Failure of the U.S. to implement the agreement, the Chamber says, would set in motion events that not only would slow economic recovery and job creation but also would undermine this country's ability to negotiate pro-U.S. trade agreements with other countries.

Contact your senators and representative, and urge their full support for legislation that would put NAFTA into effect. NB

Editorial



Taming The Paperwork Monster

Federal regulations cost American taxpayers more than $400 billion a year, an average of $4,000 per household.

Much of that expense is incurred in meeting paperwork requirements of a vast range of government controls on businesses and individuals.

This paperwork burden emerged gradually over many years, without regard to the cumulative burden or, indeed, to whether the many demands for information were all necessary.

Inevitably, too many of those demands proved excessive.

The impact of paperwork costs goes beyond direct outlays by those providing detailed information to the federal government. Money spent by companies to fill out forms and reports is lost to such activities as business expansion.

Fortunately, efforts are under way to deal with this problem. Small and large companies as well as business, taxpayer, and consumer organizations have formed the Paperwork Reduction Act Coalition to work for reforms critical to economic growth and job creation. The U.S. Chamber of Commerce and the Council on Regulatory and Information Management are co-leaders of the reform group.

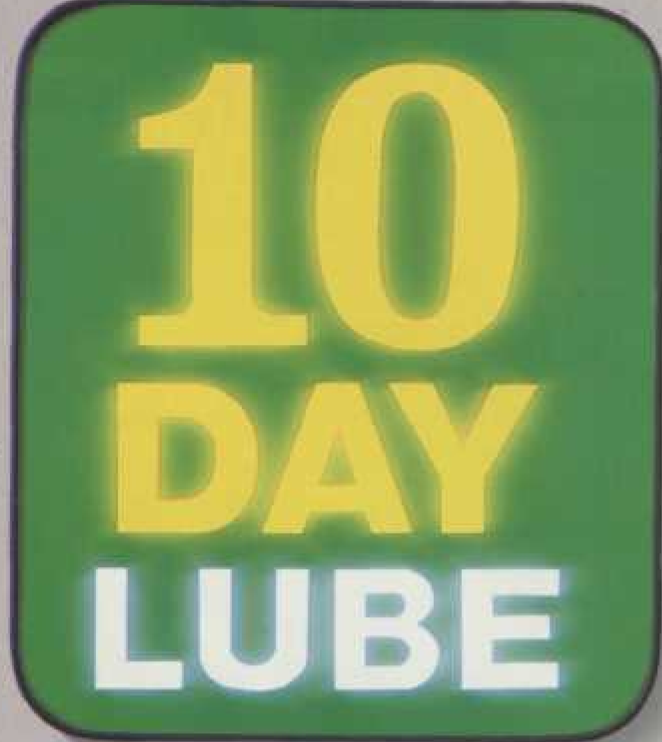
The coalition's goals include enactment of Senate Bill 560, the Paperwork Reduction Act of 1993. This measure would:

- Establish a government-wide goal of reducing paperwork 5 percent a year;
- Increase the responsibility of federal agencies for managing paperwork requirements effectively, i.e., obtaining only that information that an agency needs with as little burden as possible;
- Provide the public with additional opportunities to influence proposed paperwork requirements;
- Require Congress to assess the paperwork implications of all future legislation and provide sufficient funding for the Office of Information and Regulatory Affairs (OIRA), which was created within the Office of Management and Budget in 1980 to determine whether the costs of proposed information demands would outweigh the benefits.

The legislation would also reverse the effect of a U.S. Supreme Court decision that OIRA's jurisdiction covers only federal requirements for disclosure of information to the federal government and does not extend to third parties such as state and local governments.

Passage of S. 560 not only would make OIRA more effective but also would implement the other critical steps needed to reduce costly and unnecessary paperwork and reporting requirements.

More important, passage of the paperwork-reform law would also free business people to invest more time and money where it really counts—in the growth that creates jobs. NB



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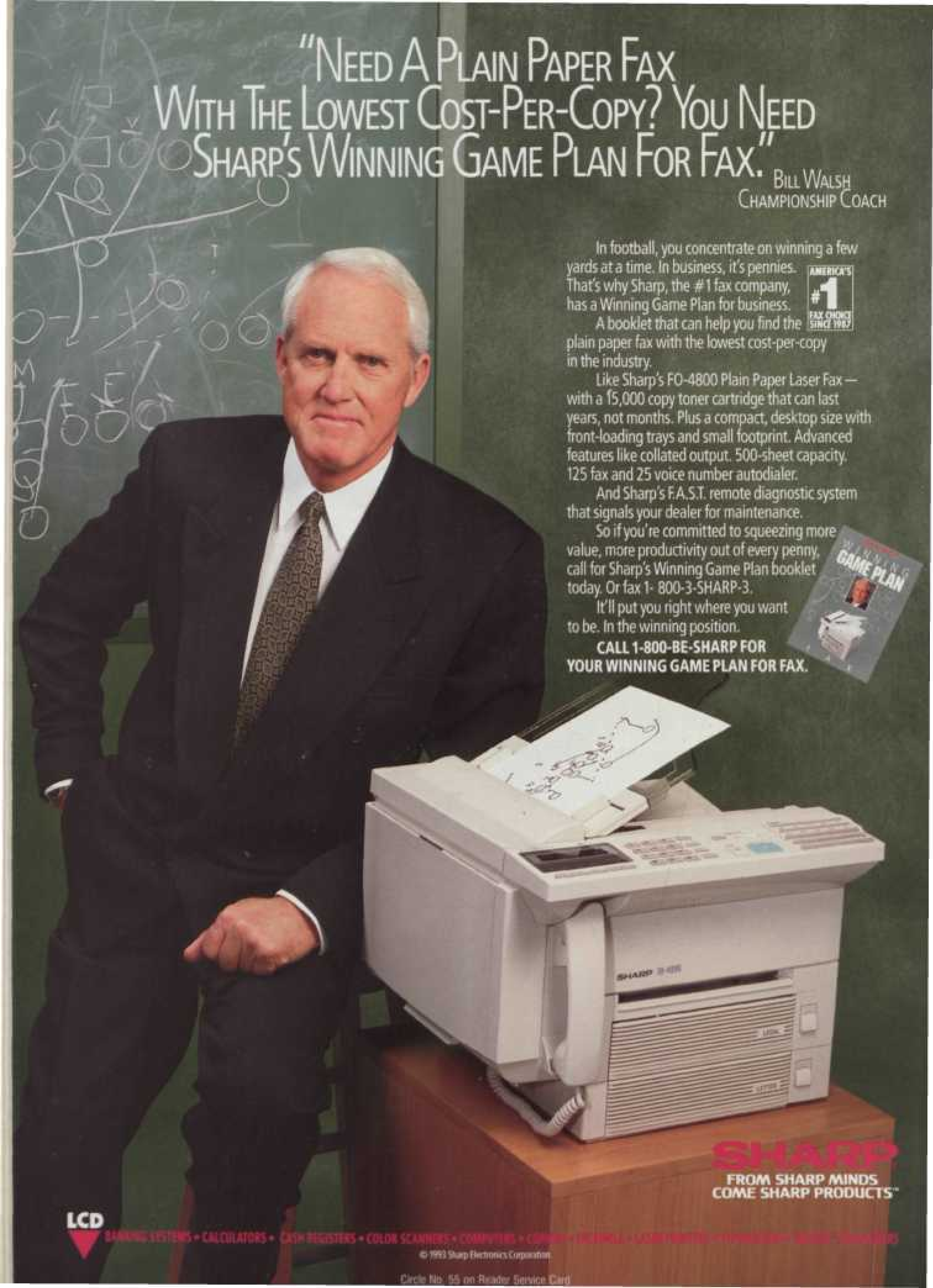
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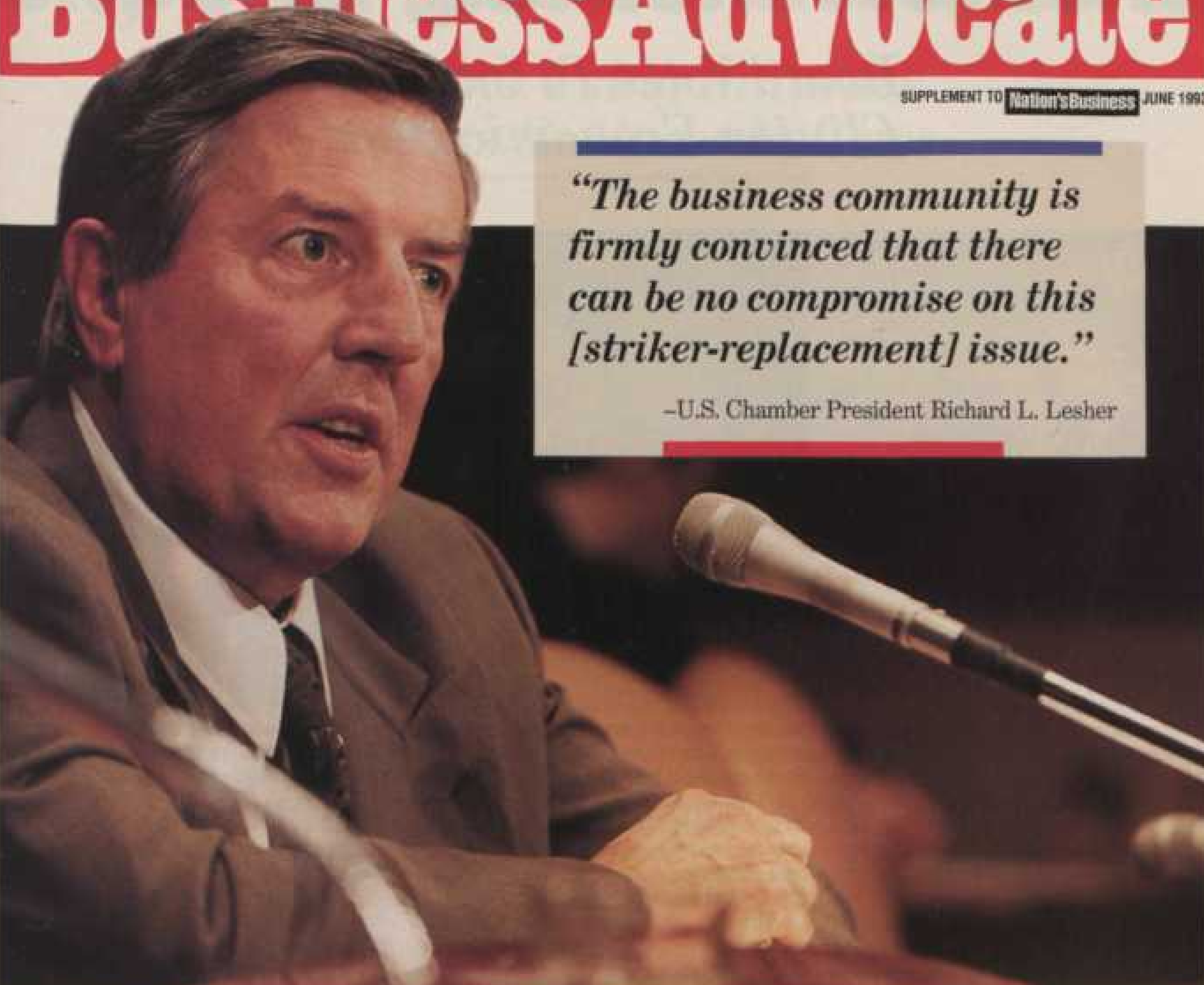
The Business Advocate

SUPPLEMENT TO Nation's Business JUNE 1993



"The business community is firmly convinced that there can be no compromise on this [striker-replacement] issue."

–U.S. Chamber President Richard L. Lesher

U.S. Chamber President Richard L. Lesher testifies at a Senate hearing against proposed striker-replacement legislation as part of the Chamber's broad-based efforts to advance economic growth.

Chamber Leads Efforts To Foster Economic Growth

■ Business Goals

Chamber Working To Cut De

Board Votes To Improve Clinton Economic Plan

The U.S. Chamber of Commerce's board of directors is urging that President Clinton's fiscal plan be improved by eliminating certain onerous tax provisions and expanding economic-growth incentives.

"After careful evaluation, the Chamber's membership has concluded that President Clinton's economic program as presently constituted will not work," said Chamber President Richard L. Lesher.

"We intend to work vigorously with the Clinton administration and Congress to craft an improved package for fostering long-term economic growth and sustained deficit reduction," the Chamber president added.

The board's opposition to anti-growth tax provisions and insistence on further spending cuts followed surveys taken through the Chamber's Business Ballot and the Where I Stand poll in *Nation's Business*, with both showing strong erosion of support for the Clinton economic plan as it now stands.

As more details of that plan became available, Chamber members grew increasingly concerned about its reliance on tax increases, rather than aggressive spending cuts, to reduce the deficit.

In the Chamber membership surveys, 82 percent of respondents to the Business Ballot poll reaffirmed the Chamber position that the deficit should be reduced by cutting spending, not raising taxes; nearly 86 percent expressed opposition to the Clinton economic plan as it now stands; and more than 80 percent did not believe that the plan would eventually reduce the deficit.

The Where I Stand responses showed similar opposition–76 percent said that the president's plan in its present form would hurt the overall economy. A similar number said that it would hurt their respective businesses.

(Additional details of the polls appear on Page 93 of this publication and Page 77 of *Nation's Business*.)

A Chamber plan for targeting specific tax-increase proposals in the president's budget, which is now pending in Congress, was approved by the board and announced at a media briefing at the Chamber on May 10.

Chamber President Richard L. Lesher, right, talks informally with some of the reporters at a briefing on the positions adopted by the organization's board. From left to right are Steven Pearlstein of *The Washington Post*, Bob Deans of *The Atlanta Constitution*, and Bill Mintz of *The Houston Chronicle*.

The Chamber opposes tax proposals that would:

■ Impose a $71.5 billion tax over six years on the heat content of fossil and nuclear fuels and hydropower as measured in British thermal units (Btu's). The basic tax rate would be 25.7 cents per million Btu's, with a supplemental rate of 34.2 cents per million Btu's on oil. (The Chamber also has joined other business associations and coalitions in opposing the proposed Btu tax.)

■ Increase by nearly $1.8 billion over six years the taxes paid by U.S. companies on royalties received under licensing agreements with firms in foreign countries.

■ Raise the top corporate tax rate to 36 percent from 34 percent, increasing revenues from that source by $30.6 billion over six years.

Lesher noted that the Btu tax not only would raise costs of producers and users of the targeted fuels but also would have an inflationary impact throughout the entire economy.

"The board decided that the Btu tax is not the way to go," Lesher said.

He pointed out that apprehension over the effect that higher taxes would have on an economy still struggling to reach healthy growth levels was a factor in the recent decline in key economic indicators, including consumer confidence.

"To our dismay and disappointment," he said, "the focus of the plan seems to have turned away from the overwhelming priority of our membership, which is deficit reduction."

While opposing specific tax hikes, the Chamber board voted to support pro-growth incentives in the president's package. These proposals call for:

■ A small-business investment tax credit of 7 percent on qualifying expenditures between Dec. 3, 1992, and Dec. 31, 1994.

The credit would apply to investments that exceeded those of a base period, which a business could designate as 1987-91 or 1989-91.

■ Modification of the existing alter-

Continued on Page 85

ficit, Spur Economic Growth

Chamber Using Influence To Press Business Policies

The U.S. Chamber of Commerce is aggressively pressing pro-business positions on several other fronts in addition to its strong stand, described in the article on the opposite page, for rollbacks on the administration's tax-increase proposals.

Those activities include strong opposition to a wide range of economic and labor policies viewed as detrimental to economic growth as well as close consultation with President Clinton and Cabinet members on issues of mutual interest.

In recent months, the Chamber has:

■ Scored a major victory in the defeat of Clinton's $16.3 billion stimulus package in Congress, which was strongly opposed by 80 percent of the Chamber members voting in a recent Business Ballot poll.

■ Urged Congress to oppose the president's proposal to make tax increases retroactive and spending cuts prospective.

■ Pressed lawmakers to cut spending beyond the president's recommendations before they consider tax increases.

■ Worked to hold top tax rates on undistributed earnings of S corporations to the present 31 percent.

■ Proposed a market-based health-care reform plan to the Clinton administration. (See Page 88.)

■ Advocated easing of the small-business credit crunch through steps later recommended by President Clinton.

■ Told Congress that "there can be no compromise" on Chamber opposition to legislation banning the permanent replacement of strikers. (See Page 86 for details.)

■ Urged Congress to approve line-item veto authority that would enable the president to reject individual items in massive spending bills that he must now approve or disapprove *in toto*.

■ Renewed the battle on Capitol Hill for passage of a constitutional amendment requiring a balanced budget and limiting lawmakers' ability to raise taxes to achieve that goal.

While many of those positions brought the Chamber into conflict with the Clinton administration, the business federation maintained its strategic position as a highly influential adviser to the White House.

That role, which permits the Chamber to represent business in direct discussions at the highest level of government, was dramatized by the top-level administration visitors to Chamber headquarters in recent weeks.

President Clinton used Chamber broadcast facilities to address grassroots meetings throughout the country in support of his education-reform program, "Goals 2000." He was accompanied by Education Secretary Richard Riley and Labor Secretary Robert Reich.

This was the 10th in a series of nonpartisan teleconferences on the nation's education-reform program begun during the Bush administration by the then-Education Secretary Lamar Alexander.

In his address, the president recognized the U.S. Chamber's leading role in the movement to improve the quality of education. He said:

"I'm glad to be here...to support the

Continued on Page 84

President Clinton discusses the need to improve the education and training of American workers with Chamber executives. From left: William T. Archey, senior vice president, policy and congressional affairs; Chamber President Richard L. Lesher; Jeffrey Joseph, vice president, domestic policy; and H. William Lurton, chairman of the Chamber's education and training center.

"I'm going to work very closely with the Chamber ... on the parts of the agenda with which we agree."

—Robert B. Reich
U.S. Secretary of Labor

■ Influence

Chamber Presses Business Policies

Continued from Page 83

effort that the Chamber is making, along with its Center for Workforce Preparation, to help to examine tonight the whole critical question of how to move our young people from school to the workplace. I want to compliment the Chamber on all their efforts...."

Reich commented: "I'm so delighted that we're doing this in the headquarters of the Chamber of Commerce. The Chamber is committed to doing these kinds of programs–training, education, retraining–and we've aimed to work very closely with the Chamber."

During his visit, the president met with Chamber President Richard L. Lesher; H. William Lurton, chairman of the Chamber's executive committee and chairman of its Center for Workforce Preparation and Quality Education, to which the president referred; William T. Archey, senior vice president for policy and congressional relations; and other Chamber officials.

Other top Clinton administration figures who have visited the Chamber:

■ Vice President Albert Gore and Administrator Erskine Bowles of the Small Business Administration, who participated in a Small Business Week program and solicited the ideas of Chamber officials on small-business policies the administration should pursue.

■ Attorney General Janet Reno, who spoke on civil-justice reform.

■ Commerce Secretary Ron Brown, who participated in a Chamber teleconference in support of the North American Free Trade Agreement (NAFTA).

■ U.S. Trade Representative Mickey Kantor, who discussed major trade issues in which the Chamber is involved. They include NAFTA, fair-trade policies, and intellectual-property rights.

■ Laura D'Andrea Tyson, chairman of the Council of Economic Advisers.

■ Health and Human Services Secretary Donna Shalala, who reported on the administration's health-care reform efforts.

■ Energy Secretary Hazel O'Leary, who presented awards on behalf of the National Science Foundation.

In addition to hosting those top federal leaders, Chamber officials have met at the White House and other executive-department offices with Thomas F. "Mack" McLarty, chief of staff to the president; Treasury Secretary Lloyd

Energy Secretary Hazel O'Leary recognizes students from across the country at the National Science Bowl awards ceremony at the U.S. Chamber.

Bentsen; Ira Magaziner, President Clinton's director of policy development and a key official in the administration's health-care reform efforts; and Robert E. Rubin, chairman of the National Economic Council.

Rep. John Conyers Jr., D-Mich., chairman of the House Government Operations Committee, hosted a luncheon for Chamber executives to discuss paperwork reduction, regulatory reform, and government procurement, especially for small business.

All these meetings were in connection with initiatives on which the Chamber is working with the administration to bring about policies that will best serve the national interest.

While the organization has "terrific access to the White House," Lesher says, "both sides are making it unmistakably clear that we will agree on some issues and disagree on others, and that the Chamber will continue to press its long-standing basic policies as aggressively as possible."

Labor Secretary Reich, who has met with Chamber officials on other issues in addition to his visit for the education program, says that the Chamber and the administration may disagree on some issues, "but our goals are precisely the same" in such areas as economic growth, increased productivity, higher living standards, and improving the skills of American workers.

In working with the White House and Congress, Chamber leaders are following through on their statement to members at the outset of the Clinton presidency:

"Our members have made it clear... that they want an end to gridlock and confrontation. Your Chamber will be a major player in this new era. We have put in place an extensive and effective grass-roots operation that will ensure that the collective voice of our membership is heard at the highest levels of government."

In their statement in the Chamber's annual report, Lesher, Lurton, and Chamber Chairman Ivan W. Gorr said, "We seek cooperation among business, government, and labor in addressing the nation's social and economic problems, meeting challenges of the world marketplace, and re-energizing the American people with a can-do spirit."

Implementing that strategy has greatly involved the Chamber in national public-policy debates.

"We are a dynamic organization in a dynamic period of history," Lesher notes. That dynamism is maintained not only by the Chamber's veteran staff of public-policy experts but also by the recent addition of several new and highly talented specialists.

(For more details on the latest additions to the Chamber staff, see Page 85.)

The strategy initiatives of Chamber officials and staff include the close dealings not only with administration officials but also with long-standing business allies in Congress.

The Chamber's ability to work effectively with key Republicans in Congress as well as with the Clinton administration has been an important element in the organization's increasingly influential role in shaping public policy.

That ability was spotlighted in the comments of Sen. Orrin Hatch, R-Utah, a member of the Senate Labor Committee and a longtime advocate of pro-business positions. After Chamber President Lesher told the Labor Committee that there could be no compromise in his organization's opposition to the striker-replacement legislation, Hatch wrote to Lesher:

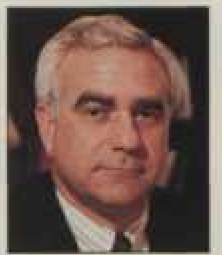
"Your testimony has laid the groundwork for our position in what will un-

Continued on Page 96

■ New Faces

U.S. Chamber Fills Key Positions

Several key positions, including two vice presidencies, have been filled recently by the U.S. Chamber of Commerce.


Regalia


Taylor


LaBranche


Nelson


Jask

Martin A. Regalia, formerly director of economics and research for the Savings and Community Bankers of America (SCBA), has been named vice president and chief economist.

Before assuming his previous post in June 1992, Regalia was executive vice president, policy development, and chief economist for the National Council of Community Bankers–one of SCBA's predecessor organizations. Before that, he was principal analyst in the Fiscal Analysis Division at the Congressional Budget Office and served as a vice president and corporate economist for Glendale (Calif.) Savings and Loan.

He also was an economist for the Board of Governors of the Federal Reserve System and a financial economist for the Federal Deposit Insurance Corp.

Named vice president of the Chamber's Quality Learning Services Division is Roger Jask. Formerly a vice president of the Society for Human Resource Management, Jask had also been a vice president for the Produce Marketing Association.

In his Chamber position, he will be responsible for the organization's Satellite Distance Learning Programs and the Institutes for Organization Management. The satellite operation produces interactive televised seminars on management topics, and the Institutes for Organization Management provides management training to chamber and association professionals nationwide.

The Chamber's new Senate liaison is Lonnie P. Taylor. Taylor previously was associate administrator for congressional and intergovernmental affairs in the U.S. General Services Administration.

Before that, he was chief of staff and counsel for three years to Rep. Jack Buechner, R-Mo., who left the House of Representatives in 1990.

The new manager of the Chamber's association department is Gary A. LaBranche. LaBranche was vice president and director of association consulting at Lawrence-Leiter and Co. in Kansas City, Mo.

At the Chamber he will be the central contact for the organization's 1,200 member associations and will coordinate member services for them.

The Chamber also named a new executive director of its education and training affiliate, the Center for Workforce Preparation and Quality Education. Rae Nelson was previously with the White House Office on Policy Development, where she helped develop education and training policies and initiatives.

Before moving to the policy development office, she was a policy analyst and communications director in the White House Drug Abuse Policy Office.

Said Chamber President Richard L. Lesher: "We are delighted to have these outstanding, talented individuals on board and believe they will enhance our ability to represent and serve the interests of business in Washington."

■ Fiscal Policy

Chamber Board Votes To Improve President Clinton's Economic Plan

Continued from Page 82

native minimum tax (AMT) schedule. The current depreciation system would be replaced by one that allowed corporations to use one depreciation period for each asset for both regular and AMT tax purposes.

■ Allocation to U.S.-source income of 100 percent of research and experimentation expenses.

This expense provision deals with how companies with both domestic and foreign income allocate R&E expenses between the two.

■ Reinstatement of tax provisions that expired last year in spite of business efforts to maintain them. They are:

–Exclusion from employee taxable income of the value of employer-provided educational assistance.

–A research-and-experimentation tax credit of 20 percent to the extent that a company's qualified research for the current year exceeded its base amount for that year.

–A tax credit to encourage employers to hire workers from specific groups that include economically disadvantaged youths, Vietnam-era veterans, ex-convicts, welfare recipients, or individuals referred by vocational rehabilitation agencies.

–Authority to issue mortgage bonds to finance the purchase or rehabilitation of single-family owner-occupied residences within the jurisdiction of the government entity issuing the bonds.

–A 25-percent deduction on health-insurance costs paid by the self-employed.

The Chamber is urging that those provisions be made permanent and that the health deduction for the self-employed be increased to 100 percent.

The business federation's position statement on the Clinton plan reflects the statement issued by the board on Feb. 22.

That statement said that spending cuts proposed by the president at that time "can and should be expanded," that those cuts should be implemented before any new taxes are considered, and that tax incentives should be expanded to "further economic growth."

Legislation

U.S. Chamber Urges Defeat Of Striker Bill

The business community is firmly convinced that there can be no compromise" on a bill to ban the permanent replacement of striking workers, Richard L. Lesher, president of the U.S. Chamber of Commerce, told a Senate panel.

Lesher told the Labor Subcommittee of the Senate Labor and Human Resources Committee that no amount of tinkering could win business support for the measure.

"The U.S. Chamber of Commerce federation strongly opposes this bill and urges the members of this subcommittee to reject it," he said. "This bill will encourage more and deeper disputes between unions and management," and "there will be more strikes and less reliance on 'friendly' resolution of workplace disagreements" should the bill become law.

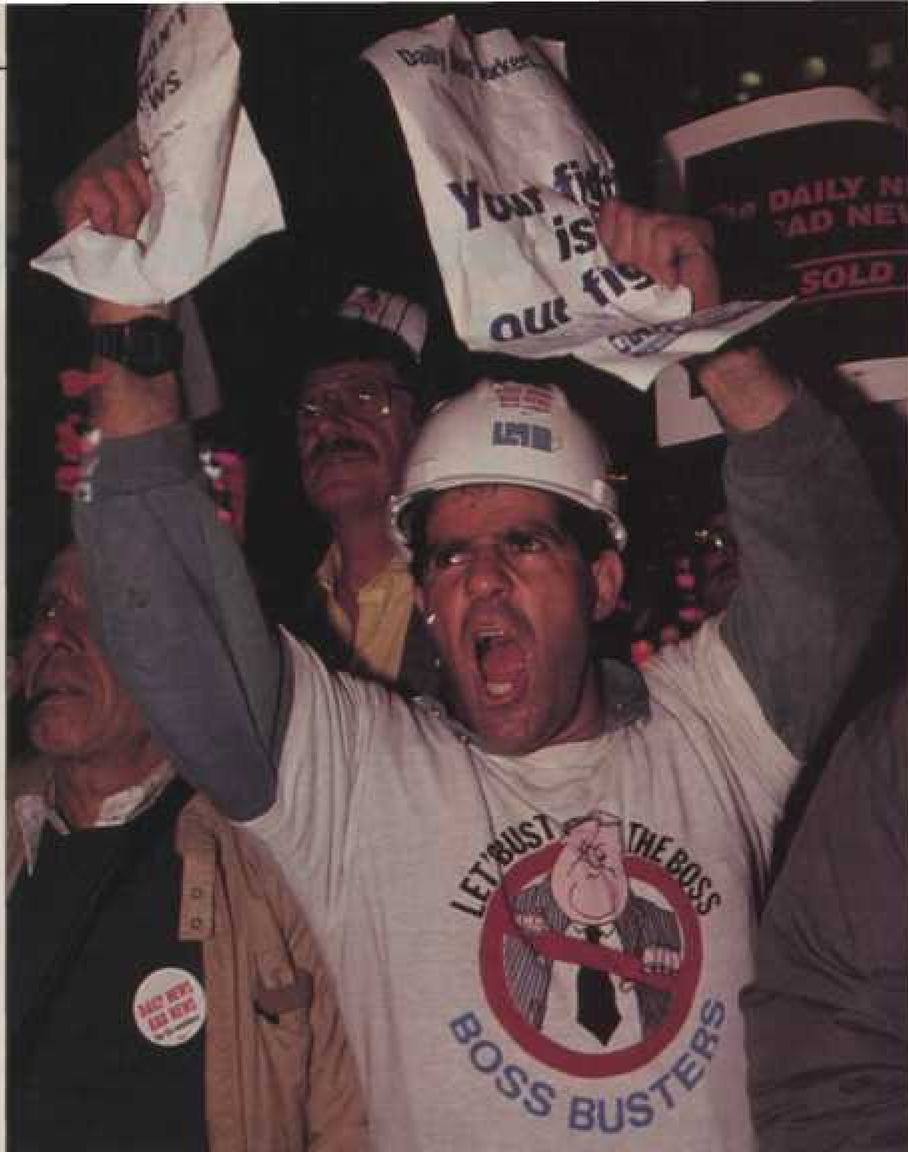
Lesher's testimony followed a Feb. 22 meeting of the Chamber's board, where directors unanimously reaffirmed the business federation's strong opposition to the striker bill.

"This bill is a blatant attempt by labor to use special-interest legislation to achieve what it cannot get through persuasive argument or the power of reason," said William A. Stone, president and chief executive officer of Louisville Plate Glass Co., in Louisville, Ky., and a Chamber director, speaking on behalf of the board.

The Chamber is leading a coalition of business groups against the bill, which would prohibit employers from permanently replacing employees–either union or nonunion–who strike over economic conditions, such as wages and benefits.

Current law already bans permanent replacements in strikes involving management's use of an unfair labor practice, such as provoking a walkout in an attempt to "bust" a union.

The pending legislation is a top priority of organized labor. It would take away an ability that employers have had since the 1935 enactment of the Wagner Act–also known as the National Labor Relations Act. That law, which governs collective bargaining and union organizing, enabled employers to permanently replace economic strikers.



Legislation pending in Congress would ban employers from permanently replacing strikers in disputes over wages and benefits.

In 1938, the U.S. Supreme Court in *NLRB vs. Mackay Radio & Telegraph Co.* affirmed that ability as a "right." The pending legislation would reverse the high court's decision.

President Clinton has indicated he would sign the bill should Congress pass it. At the Senate hearing in March, U.S. Labor Secretary Robert B. Reich, who testified on behalf of the administration, said that the threat to replace striking workers "deters the process of collective bargaining, which is at the heart of any [labor-management] partnership."

AFL-CIO Secretary-Treasurer Thomas Donahue, however, told the Senate panel that the right to strike "is at the core of the collective bargaining system." He said as long as strikers can be permanently replaced, union workers do not have an "unfettered right to strike."

In fact, under current law, in any type of dispute, workers who strike cannot be fired; they can return to their jobs even during a strike; and, at the end of a strike, they must be given first priority when job vacancies occur.

The Chamber's Lesher said the legislation would upset the long-standing balance between the rights of labor and management and tip the scales in favor of unions. It also would encourage strikes and industrial conflict, hamper productivity and U.S. competitiveness, and stifle job growth, he said.

The Senate Labor and Human Resources Committee approved the union-backed striker-replacement bill in May, and the measure is expected to be voted on by the full Senate before Congress takes its summer recess on Aug. 9. Business is targeting the Senate because its chances of defeating the bill are greater there than in the House.

Call or write your senators by June 25 and urge them to vote against the striker-replacement ban. Tell them the striker legislation would upset the current labor-management balance in labor relations. Dial the Senate switchboard at (202) 224-3121; or write your senators, U.S. Senate, Washington, D.C. 20510.

"How To Profit from an 'S' Corporation Before Clinton's New Tax Bill is Passed"

Ted Nicholas, Author of ***How To Form Your Own Corporation Without a Lawyer for Under $75***

Fully revised handbook shows how to beat pending tax reform, limit personal liability, and completely avoid paying corporate tax.
Note: You'll be rushed a free update to your book, if laws change in 1993!

Individual tax rates are lower than corporate tax rates for the first time in history. That's why the "S" Corporation strategy makes sense if you are interested in slashing this year's tax bill.

Now you can limit your liability and avoid double taxation. These important advantages and many others are now available to you when you form an "S" Corporation. And you can operate even a one person business as an "S" Corporation. You would have all the benefits of a corporation. There is *no income tax whatsoever at the corporate level.* All you need to pay is the lower personal rate.

Under pending new tax reform, owning your own "S" Corporation still gives you the most powerful tax breaks, and for most people still will do so when laws change. By getting your book now you might be able to retain all current benefits this year even if law changes! All elements may not be retroactive.

Let's look at the facts. The current maximum income tax is only 31% and as low as 15%. Compare this with the maximum corporate rate of 39%. The individual rate has an eight percentage point advantage over the corporate rate!

Avoid Corporate Tax

Yes, even as a one person business you can form an "S" Corporation with all the benefits of a corporation and *no income tax whatsoever at the corporate level.* All you need to pay is the lower personal rate.

That's why there has been a surge of "S" Corporation formation in recent weeks. Thousands of entrepreneurial men and women have already taken advantage of this strategy. If this appeals to you, a new publication makes it clear and simple. And it will answer virtually all your questions.

Ted Nicholas, author of 14 books, has just completed revising **The Complete Guide to 'S' Corporations**. This book contains everything you need to know about maximizing the benefits of an "S" Corporation. Simple-to-use forms are also included. Whether you file yourself or through an accountant or lawyer the book will make things easier and simple, regardless.

The handbook shows how to:

- Completely avoid corporate tax.
- Avoid double taxation.
- Discover when an "S" Corporation becomes your best personal tax shelter. Losses are taken on your personal return—yet you retain all corporate advantages including limited liability, easy transferability of ownership, and continuity of life.
- Take cash out of "S" free of corporate tax.
- Own investments, including real estate and securities, in an "S" Corporation when 100% of your income can be from rents, dividends, and other passive sources without losing "S" status.
- Put children through college with IRS help.
- Sell personal property tax-free to your new "S" Corporation.
- Tax deduct your kids' allowances.
- Hand your children a $120,000 graduation present.
- Give your spouse a tax deferred $144,000.
- Retain "S" status and still have up to 35 stockholders.
- Claim unlimited Passive Income with an "S" Corporation. No limitation for rent, interest, dividends, etc.
- Determine whether "S" status is best if you are thinking of selling your business.

How to Make "S" Decision

- Decide when it's better to convert your existing corporation to "S" status and when it is better to form a new one.
- Learn to recognize the proper time to make the "S" election.
- Insert buy-sell agreements so that you can easily get back stock of any shareholder who dies, is divorced, or wishes to sell.
- When **not** to set up an "S" Corporation. As with all tax strategies, election of an "S" Corporation does not apply in all cases.
- Void "S" status and be treated as a regular corporation whenever you wish.
- Discover when owning equipment, vehicles, and real estate is best through an "S" Corporation.
- Decide when to choose to be taxed as a regular corporation.
- Turn a "used up" tax shelter into family wealth.
- Build wealth without more work.
- Avoid accumulated earnings tax.
- Learn when two "S" Corporations save more than one.
- Minimize the kinds and levels of fringe benefits for yourself and your key employees.
- Structure your holdings for maximum advantage. Owning real estate and/or selected vehicles with your own "S" Corporation while running your business through a regular "C" Corporation may make the most sense.

Free Bonus

If you order now, we will include a copy of the best-seller **How To Form Your Own Corporation Without a Lawyer For Under $75** by Ted Nicholas, absolutely free. Normally $19.95, this unique book with 900,000 copies in print has just been fully revised to comply with the new tax reform. Even if you have an old copy, you need to replace it with the updated version. It contains ready-to-use forms for the actual certificate of incorporation, minutes, by-laws... everything that's needed. It will save you $300 to $2,500 in legal fees alone and show you hundreds of unique ways to maximize the benefits of even the smallest corporation.

Money Back Guarantee—If for any reason you are not satisfied after examining **The Complete Guide to "S" Corporations** for 30 days, you may return it for a prompt and courteous refund. And you may keep the bonus book regardless.

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Reform

Chamber Pushes Health-Care Agenda

Robert Patricelli, left, speaks with Vice President Albert Gore, who presided at a White House hearing on health care, and his wife, Tipper Gore.

The U.S. Chamber of Commerce has established itself as an active participant in the national health-care debate.

It has detailed its policy positions in a variety of meetings with lawmakers and federal officials and in other forums, including a hearing in April conducted by the White House task force on health-care reform.

Robert E. Patricelli, a U.S. Chamber director and chairman of the business federation's Health and Employee Benefits Committee, testified at the hearing on behalf of the Chamber.

He emphasized three points:

■ The Chamber will oppose any scheme involving an employer mandate that does not provide substantial subsidies for low-wage workers and their employers. "These subsidies," he said, "should not be viewed as transitional; they are a necessary structural element of maintaining health-insurance affordability."

■ The Chamber will oppose any plan that does not recognize the important role that employers have played in stimulating the development of cost-containing managed-care programs and "keep that energy in the system."

"Specifically," Patricelli said, "that means the proposed community-rated purchasing groups–the HIPCs [health-insurance purchasing cooperatives] –should not be any larger than needed to solve the problems of insurance availability in the small-business market."

■ The Chamber will oppose any attempt to regulate premiums, prices, or wages in the hope of achieving some quick fix on health-care costs. If it does not, he said, "the cure will be worse than the disease."

In the other forums and in meetings with Ira Magaziner, the coordinator of the White House task force on health-care reform, the Chamber also stated that it will oppose any reform proposal that has:

■ A basic benefits package for all Americans that is so lavish that it is unaffordable.

■ A financing plan that relies on unrealistic levels of new taxes.

■ An exclusive focus on reforming the private sector, without such cost-control-measures applying to public programs, such as Medicare and Medicaid.

Guide To The Debate

Need some aid in deciphering the national health-care debate?

The U.S. Chamber of Commerce has published a handy 16-page guide, *Health Care 101: The Basics of Reform*, that can help. The brief guide provides an overview of the health-care situation in America, the basic elements of reform being debated, the politics shaping the debate, and the prospects for reform.

Single copies are free to U.S. Chamber members. Write to the U.S. Chamber, Miscellaneous Publications, 4940 Nicholson Court, Kensington, Md. 20895; or call 1-800-638-6582.

Shalala

Donna E. Shalala, secretary of health and human services, praised the U.S. Chamber in a recent address. She said: "We are gratified that the U.S. Chamber of Commerce has taken part in the dialogue [on health-care reform], and we are pleased that the Chamber has expressed support for the concept of enabling consumers to band together in large groups to increase their purchasing power."

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■ The Courts

Moving Toward Consensus On Civil-Justice Reform

Business's efforts to reform the civil-justice system received a boost from the Clinton administration when Attorney General Janet Reno addressed a two-day conference on the subject at the U.S. Chamber of Commerce.

Reno said reform of the civil-justice system would be a top priority during her tenure. But, she added, "if we're going to have civil justice in America, people must have a say in the system."

U.S. Attorney General Janet Reno addresses a conference on civil-justice reform at the U.S. Chamber of Commerce.

The meeting brought together defense attorneys, corporate counsels, and members of the judiciary to develop a consensus on the problems most in need of being addressed to ensure "swift justice at a reasonable price."

Federal and state courts currently are so overburdened with criminal cases, and court rules and procedures are so arduous, that civil litigants experience significant court delays and increased litigation costs.

The Civil Justice Reform Act (CJRA) of 1990 was intended to begin the process of change by establishing a mechanism for developing reform measures. Civil-justice advisory groups, consisting of defense and plaintiff lawyers, corporate counsels, and consumer and public-interest groups, were set up to craft and test reforms in federal district courts.

The reforms proposed by the groups are being studied by the Federal Judicial Center, the research and education arm of the federal courts, to see what works. The Judicial Conference, the administrative arm of the federal courts, will recommend reforms for courts that have not adopted them by the end of 1993.

But the CJRA hasn't done enough, say critics. The U.S. Chamber is reviewing legislative and administrative proposals dealing with the issue through its Legal and Regulatory Affairs Committee.

The panel met in late May to consider reform proposals.

■ Workers' Comp

A new guide to workers' compensation laws is available from the U.S. Chamber of Commerce.

The 1993 edition of the *Analysis of Workers' Compensation Laws* contains summaries of workers' compensation laws in the 50 states, the District of Columbia, U.S. territories, and the Canadian provinces. It reflects the more than 235 changes made to those laws last year.

The cost of the book is $15. To order, request publication number 0338. A supplement containing updates through July 1 will be available later in the year for $7. The supplement publication number is 0339. Quantity discounts are available.

To order by credit card, call 1-800-638-6582 between 9:30 and 4:30 p.m. Eastern time. In Maryland, call 1-800-352-1450. To order by mail, write to the U.S. Chamber of Commerce, Publications Fulfillment, 1615 H Street, N.W., Washington, D.C. 20062-2000. Make checks payable to the U.S. Chamber of Commerce.

■ Via Satellite

New Series Of Management Seminars Set

The Quality Learning Services Division of the U.S. Chamber of Commerce has scheduled a new series of quality-management satellite seminars for the fall.

The seminars will cover a variety of management topics and will be aired nationwide from 1 to 3 p.m. Eastern time.

The preliminary dates, topics, and presenters are:

■ **Sept. 16**–Being a Quality Leader, Not a Quality Cheerleader–Seven Nondelegable Tasks for the Small Business Owner; A. Blanton Godfrey, The Juran Institute.

■ **Sept. 29**–The Power Principle–How To Increase Your Personal Influence and Get Things Done With Other People; Blaine Lee, Covey Leadership.

■ **Oct. 7**–Mining for Gold: Discovering the Hidden Costs of Poor Quality; G. Howland Blackiston, The Juran Institute.

■ **Oct. 14**–Understanding Customer Satisfaction and Loyalty: How To Keep Them From Shopping Around; Christopher Fay, The Juran Institute.

■ **Oct. 21**–Innovation and Creativity in Quality: Sparking Big Ideas in a Small Business; A Blanton Godfrey, The Juran Institute.

■ **Nov. 3**–Principle-Centered Leadership: Lessons From the Best-Selling Author of *The Seven Habits of Successful People*; Steven Covey, Covey Leadership.

■ **Nov. 10**–Quality for Work Groups: Empowering Workers To Act Like Business Owners; Rich Dmytrow, The Juran Institute.

■ **Dec. 1**–Creating Systems and Standardizing Systems; Peter Scholtes, Joiner Associates.

■ **Dec. 8**–Mastering Improvement I; Peter Scholtes, Joiner Associates.

■ **Dec. 16**–Mastering Improvement II; Peter Scholtes, Joiner Associates.

For more information on each program and how to participate in the seminars, call the Quality Learning Services Division at 1-800-835-4730.

Videotape packages on quality management, with presentations by leading experts in the field, are also available. To order tapes, call 1-800-950-6009, extension 106.

What Will You Do When Your Personal Assets Are Seized to Satisfy A Judgment Against Your Corporation?

All your many tax benefits of owning a corporation could be wiped out overnight. How? The I.R.S. could visit you and claim you have not kept proper corporate minutes. You could lose the very tax benefits to which the law entitles you.

Here are some recent "horror stories" direct from actual court cases:

Joseph P. obtained a loan from his corporation without the proper loan documents and corporate minutes. As a result, the court required him to pay additional taxes of $27,111.60. He narrowly escaped a penalty of $13,555.80.

B.W.C., Inc. was forced to pay $106,358.61 of accumulated earnings tax because its corporate minutes were incomplete. They expressed "no specific, definite, or feasible plans" to justify accumulating earnings, according to the court.

Keeping records has always been a bother, and an expensive one, especially for small companies. Most entrepreneurs do not like to spend time keeping records. Probably because no one ever became rich by keeping records. And in a small, one-person business, it seems downright silly to keep records of stockholder meetings and board of directors meetings...keeping minutes...taking votes...adopting resolutions...isn't it all just a waste of time?

Not if you ask any of the thousands of entrepreneurs who have lost fortunes because they failed to keep records. You should look at corporate recordkeeping chores this way: *It's part of the price you pay to get the tax benefits and personal protection from having a corporation.*

A corporation does not exist except on paper, through its charter, by-laws, stock certificates, resolutions, etc. Anything you do as an officer or director has to be duly authorized and evidenced by a resolution of the stockholders or the board, or by both in some cases. It makes no difference if there is only one stockholder or one million stockholders. The rules are basically the same.

You can hire a lawyer, like the big companies do, and pay $100 or more just to prepare one form. But you may need, at minimum, a dozen or more documents to keep your corporation alive and functioning for just one year. This type of work is the bread and butter for many corporation lawyers. Most of the work can be done by their secretaries, yet they will charge you enormous sums because they know how important these forms are.

There is now a way for you to solve your corporate recordkeeping problems. Without a lawyer, without paying big fees, and without spending a lot of time. Virtually all the forms you will ever need are already compiled in **The Complete Book of Corporate Forms** by Ted Nicholas. Nicholas also created the highly popular computer diskettes for **The Complete Book of Corporate Forms**. These diskettes can save you hours of valuable time—and can save you literally thousands of tax dollars each year.

But forming a corporation is only the first step toward building "the ultimate tax shelter." Through carelessness or neglect, many people are denied their rightful benefits from owning their own corporation. Ted Nicholas saw that many business owners needed more help *after* they incorporated.

And so, he prepared **The Complete Book of Corporate Forms**. Everything is simplified. Either you or your secretary can complete any form in minutes. All you do is fill in a few blanks and insert the completed form in your record book. When you own this book, you are granted permission to reproduce every form. If you are behind on keeping your corporate records, now you can catch up in no time. Just complete a few blanks for the things you've already done in the company. It's legal and it works. Best of all, the price is less than you would pay a lawyer for one hour of counseling.

Here is just a sample of what you'll receive:

Minutes of Stockholders Meetings
Minutes of Directors Meetings
Minutes of Special Meetings
(Any of these can be used if you are the only stockholder and director.)
Amendments to Articles of Incorporation
Amendments to By-Laws

You will also receive all the stockholder and directors resolutions you will need including:

• Negotiations of contracts • Authorizing loans to corporation • Approval of corporate loans to you • Designation of purchasing agent *(some suppliers may want to know who is authorized to buy from them)* • Setting your salary • Directors fees • Authorizing your expense account • Mergers • Sale of corporate assets • Dissolution • Bankruptcy • Declaring dividends • Appointment of attorney or accountant

Plus, you'll receive the forms needed to authorize any of these tax-saving fringe benefits:

• Pension or profit-sharing plans • Medical and dental reimbursement plans • Sick pay plans • Split dollar life insurance • Educational loan program • Scholarship aid program • Stock options • Group life insurance • Financial counseling plan • Group legal services • Christmas bonus, special bonuses

Just one of the above forms can cost you hundreds of dollars in legal fees...

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■ Capitol Hill

New Guide To Congress

If you'd like to contact your members of Congress but don't know where to start, the *1993 Congressional Handbook* may help.

The pocket-size directory, published by the U.S. Chamber of Commerce, lists all members of the House and Senate, with their room numbers, telephone numbers, and committee assignments.

It also lists House and Senate committees with members ranked by seniority.

The guide also includes:

- ■ Senators up for re-election in 1994.
- ■ Key congressional staff members.
- ■ Capitol Hill phone numbers for legislative information.
- ■ A congressional leadership roster.
- ■ A map of Capitol Hill.
- ■ State governors and cabinet directories.
- ■ District office addresses and phone numbers for lawmakers.
- ■ The cumulative U.S. Chamber vote rating and the member's margin of victory in the last election.

The cost of the handbook to U.S. Chamber members is $3.75 for one to nine copies; bulk discounts are available.

To charge your order by phone, call 1-800-638-6582 or, in Maryland, 1-800-352-1450 between 9:30 and 4:30 Eastern time. Or send your order, with a check or money order made payable to the U.S. Chamber of Commerce, to the U.S. Chamber, 1615 H Street, N.W., Washington, D.C. 20062-2000.

Two other publications related to Congress–*A Guide To Communicating With Members of Congress* and *How They Voted 1992*–are also available. Call the 800 numbers listed above for cost information.

■ Lobbying

Chamber Fights Tax Change

The Clinton administration has proposed a tax-law change that would eliminate lobbying expenses–even for simple communications–as a tax deduction, a move that could cost businesses thousands of dollars and create nightmarish paperwork problems, say opponents of the proposal.

Under the proposal, lobbying is broadly defined as any attempt to influence legislation through communication with members of Congress, state legislators, local lawmakers, or government agency officials who participate in the formulation of legislation. The change is included in President Clinton's budget proposals for fiscal 1994 as a way to raise revenues.

In addition to federal, state, and local legislation, the proposal would cover activities involving referenda, initiatives, constitutional amendments, or similar procedures.

Businesses that pay dues to an association or other organization no longer would be allowed to deduct the portion of their dues that is used by the association to lobby lawmakers. They could deduct only the portion that goes to nonlobbying expenses. Also eliminated would be the deduction for lobbying engaged in directly by a business or through a retained lawyer or lobbyist.

Even communications by trade associations and other 501(c)(6) nonprofit organizations to their members on issues of direct importance to the membership would be considered as lobbying under the Clinton proposal.

The record keeping required to track lobbying and nonlobbying expenses could be quite burdensome, said Tyler Wilson, administrative law attorney for the U.S. Chamber of Commerce, which is vigorously opposing the proposal.

The president's tax proposals were being considered by the House Ways and Means Committee in early May. The Senate Finance Committee was expected to consider the tax proposals in May as well, with floor votes in each house of Congress expected to follow in June.

Businesses and trade associations should contact their senators and representatives to urge them to oppose the elimination of lobbying expenses as a tax deduction. Call senators at (202) 224-3121 and representatives at (202) 225-3121.

Trade

Commerce Secretary Ron Brown, left, addressed a satellite town meeting broadcast from the U.S. Chamber on the North American Free Trade Agreement. Panelists, from left to right, were small-business owners Steve Nunn, Toby Malichi, and Boyd Berends and U.S. Chamber trade expert John Howard. Malichi and Berends are members of the Chamber's board of directors.

Brown Highlights NAFTA's Benefits

The North American Free Trade Agreement (NAFTA) will be "an incredible breakthrough" for small business, Commerce Secretary Ron Brown told a nationwide audience at a recent satellite town meeting sponsored by the U.S. Chamber of Commerce.

NAFTA will phase out tariffs and other barriers to trade among the U.S., Mexico, and Canada beginning Jan. 1, 1994, if the agreement is approved by the legislatures of the three countries.

The Clinton administration is "committed" to having NAFTA in place by Jan. 1, 1994, Brown said, adding that the trade pact is a cornerstone of the president's trade and economic policies. Brown noted that the agreement would be "positive for U.S. jobs."

In addition to Brown and John Howard, the Chamber's director of policy and programs/international, program panelists included three small-business owners who already are doing business in Mexico. The small-business panelists agreed that NAFTA would increase their trade with Mexico as well as encourage other small U.S. firms to enter that export market.

Brown said that if the trade pact is not passed by Congress, all three countries will be hurt, particularly Mexico.

The Chamber strongly backs NAFTA but does not believe that side agreements now being negotiated on the environment, labor standards, and import surges are necessary.

In other NAFTA-related developments, the Chamber recently published a guidebook to the agreement that focuses on trade opportunities in Mexico for small firms.

To order the book, *A Guide to the North American Free Trade Agreement*, send a check for $27.50 to International Division/Publications, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062-2000. Checks should be made payable to International Division/Publications, U.S. Chamber.

Poll Results

Business Confidence Falls

Members of the U.S. Chamber of Commerce are less optimistic about the economy now than they were earlier in the year, according to the latest Business Ballot poll.

The Business Confidence Index, as determined by poll respondents' answers to three bimonthly questions on their economic outlook, dropped to 59.3 in April from 62.4 in February.

The index had risen significantly from October to December and had remained about the same in February as it was in December.

More than 12,500 U.S. Chamber members responded to the latest poll.

The index is based on Chamber members' outlook for their firms' sales and employment and for the economy as a whole. Forty-six percent of the business people who responded expected their sales to rise over the next six months, 19 percent expected drops, and 36 percent expected no change in sales.

Twenty-four percent expected to add employees over the next six months. Sixty-three percent believed their employment would remain stable, and 13 percent expected to cut workers.

Overall, 42 percent believe the economy is headed up, 25 percent see it headed down, and 33 percent expect no change over the next six months.

The Business Ballot poll is distributed bimonthly with *Nation's Business*. Be sure to respond to this month's poll on health care.

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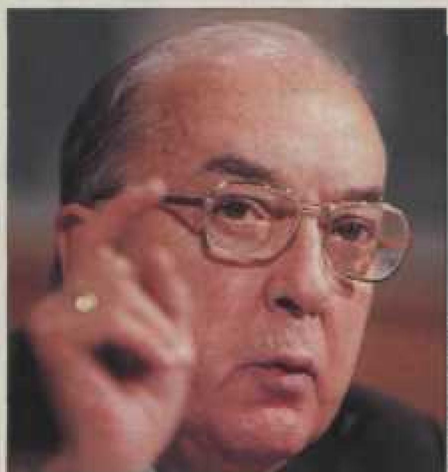
Influence

Chamber Urges Pro-Business Policies

Continued from Page 84
doubtedly be a tough battle.

"Demonstrating at the outset, however, as you did yesterday, that the business community is unified and vehemently opposed to this legislation sends the right message. This is a battle we must win....You are really making a difference."



"Thank the Lord for the Chamber of Commerce. I'm proud of you."

—Sen. Jesse Helms, R-N.C.

And noting the Chamber's aggressive performance on behalf of sound economic and social policies, Sen. Jesse Helms, R-N.C., wrote to Lesher:

"Thank the Lord for the Chamber of Commerce. I'm proud of you."

The comments of those two nationally prominent Republicans contrasted sharply with those of a small band of House Republicans who earlier this year issued an ultimatum that the Chamber accept their version of appropriate policy positions or suffer the consequences.

"Your current position is unacceptable," the U.S. representatives told the Chamber. "...Given the urgency of the situation and potential consequences, we wanted to warn you again of the stakes involved in your current position."

That statement was accompanied by threats, carried out in some states, to attempt to undermine the national business federation's membership base.

Such efforts have failed–U.S. Chamber membership is higher than ever–but the organization's officials have spotlighted a far more sinister aspect of the congressional ultimatum.

Responding to the six House members who signed the letter, Chamber Chairman Ivan W. Gorr declared:

"We infer from various statements in your letter that if we do not adopt positions acceptable to you, we will suffer the 'consequences.' This apparent attempt to dictate to us what our policies should be is deeply offensive....

"The irony of your approach will not be lost on our members–that a small group of legislators, who espouse the principle of limiting government interference in business, is attempting to interfere in the democratic policy-making process of a business organization. Our members are unified by their interest in creating and preserving the best business climate, and we have been–and remain–determined to safeguard that interest whether or not our positions are pleasing to any political or policy group."

"This [striker-replacement issue] is a battle we must win . . . You [the Chamber] are really making a difference."

—Sen. Orrin Hatch, R-Utah

In addition to the claims of the elected officials, allegations that the Chamber had strayed from its principles were made by a few columnists based on erroneous assumptions about the organization's positions.

Those writers incorrectly asserted, for example, that the Chamber had endorsed the Clinton economic plan. The Chamber position was contained in the Feb. 22 board statement, which applauded the goals of the president's economic plan–deficit reduction, spending cuts, job creation, and economic stimulus.

But that same statement called for more spending cuts, more investment incentives, and reduction of outlays before any tax increases and said that any tax increases should not be inflationary or stifle investment and job creation.

Rather than endorse the Clinton plan, the statement advocated revisions needed to develop "the best possible economic package for fostering long-term economic growth and sustained deficit reduction."

While the small group in Congress and the media criticized the Chamber from their uninformed, even distorted positions, other major business organizations expressed support for the Chamber in the face of the attacks, particularly those from Capitol Hill.

These national business organizations were joined by state and local chambers of commerce and trade associations in opposition to the idea that elected officials could dictate the policies of private business organizations.

That opposition was based on an understanding that the basic issue is the right of any private organization to determine its own positions and argue for them without fear of threats or reprisals from government.